

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

A STUDY OF CONSOLIDATING THE
CASHIERING OPERATIONS OF THE STATE'S
THREE LARGEST TAX COLLECTION AGENCIES

REPORT BY THE
OFFICE OF THE AUDITOR GENERAL

P-656

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STATE'S THREE LARGEST TAX COLLECTION AGENCIES

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Auditor General

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Honorable Art Agnos, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning a study of consolidating the cashiering operations of the State's three largest tax collection agencies: the State Board of Equalization, the Employment Development Department, and the Franchise Tax Board. The report indicates that consolidation would not be justified at this time. In addition, the report indicates that the State Board of Equalization can increase its interest earnings and reduce its personnel costs.

Respectfully submitted,

Thomas W. Hayes
THOMAS W. HAYES
Auditor General

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SUMMARY

RESULTS IN BRIEF

We conclude that consolidating the cashiering operations of the State Board of Equalization (BOE), the Employment Development Department (EDD), and the Franchise Tax Board (FTB) is not justified. During our review, we noted the following conditions:

- The initial cost to implement the consolidation would be between approximately \$661,200 and \$690,600;
- The average length of time between the receipt of tax payments and their deposit would not change as a result of consolidation;
- A consolidation would result in a savings of approximately \$309,800 in annual operating costs; however, because the federal government currently pays a portion of the cashiering costs of the EDD, the federal government would also share proportionally in any annual savings in operational costs under consolidation;
- The State could save much of, if not more than, its share of the \$309,800 without consolidation. For example, we estimate that the BOE could save between \$52,400 and \$139,500 annually by eliminating much of its overtime and not using borrowed employees who earn high salary rates; and
- Potential savings could result from consolidation once tax documents are standardized and more sophisticated technology can be utilized. However, we were unable to estimate the amounts that might be saved from these improvements.

BACKGROUND

The BOE is responsible for 13 tax programs, which include sales taxes and several other business taxes, and collects the most revenue of any of the State's departments. In fiscal year 1985-86, the BOE collected approximately \$16.2 billion (36 percent) of the total revenue collected by the State.

The EDD is responsible for collecting employee and employer contributions to the Unemployment and Disability Insurance programs. Also, the EDD collects Personal Income Tax withheld by employers. In fiscal year 1985-86, the EDD collected approximately \$11.4 billion (26 percent) of the State's total revenue.

The FTB is primarily responsible for administering the Personal Income Tax and the Bank and Corporation Tax programs. In fiscal year 1985-86, it collected approximately \$9.4 billion (21 percent) of the State's total revenue.

PRINCIPAL FINDINGS

Consolidation of the State's Three Largest Tax Collection Agencies Is Not Justified at This Time

The combined cashiering operations of the BOE, the EDD, and the FTB use the equivalent of 326.9 full-time employees and collectively process tax payments at a cost of approximately \$7.9 million annually. A consolidated cashiering system would require the equivalent of 310 full-time employees, could process tax payments at a cost of approximately \$7.6 million annually, and would take approximately the same length of time to deposit tax payments as the three agencies take to deposit tax payments currently. As a result of these conditions, we estimate that the annual savings from consolidation would be \$309,800. However, to implement the consolidated system, the initial cost to the State would be between approximately \$661,200 and \$690,600.

Also, because the federal government now pays a share of the EDD's cashiering costs, we estimate that \$197,400 of the \$309,800 in savings would be shared with the federal government, leaving the State only \$112,400 in annual savings.

Further, much of, if not more than, the State's \$112,400 share of the \$309,800 could be saved without consolidation by improving current operations. For example, the BOE could save between \$52,400 and \$139,500 annually by altering its use of staff during peak periods. Therefore, we do not feel that consolidation is justified at this time.

Finally, Arthur Young & Company, our consultant, points out that greater savings could be realized through consolidation if the three agencies standardize their envelopes, tax forms, and procedures. However, we were unable to estimate the amounts that might be saved from these improvements.

The State Board of Equalization Can Increase Its Interest Earnings And Reduce Its Personnel Costs

The BOE lost approximately \$62,600 in interest earnings from January through May 1987 because the encoding machines were not being operated for the 45-minute lunch break during high volume processing periods. Also, during calendar year 1986, the BOE required its employees to work approximately 14,900 hours of overtime to process tax payments. Furthermore, the Cashier Unit of the BOE borrowed employees from other units to work approximately 11,100 hours on processing tax payments. The borrowed employees are generally paid more than the employees of the Cashier Unit because they are employed under higher paid job classifications. We estimate that the BOE could have saved between \$52,400 and \$139,500 if it had used either permanent-intermittent or temporary employees to reduce the overtime and eliminate the borrowed hours. Finally, we estimate that either the Cashier Unit of the BOE or the proposed consolidated system could save an additional \$42,000 annually in staff costs by using a more reliable method of scheduling the permanent-intermittent staff.

RECOMMENDATIONS

To earn as much interest as it can and to reduce its staff costs, the State Board of Equalization should take the following actions:

- Arrange to staff the encoding section in shifts using its current staff so that the encoding machines are operated continuously before the daily deposit of tax payments. If the BOE cannot use current staff, it should hire additional staff to operate the encoding machines during the lunch break;
- Hire additional permanent-intermittent or temporary employees equivalent to ten full-time employees to work for the Cashier Unit instead of using excessive overtime hours and borrowed staff with higher paid job classifications;
- Consistently forecast the daily volume of mail for the Cashier Unit based on the previous year's volume, and then schedule permanent-intermittent staff in proportion to the expected daily workload; and
- Adjust the scheduling to reflect unexpected changes in the daily volume of mail.

AGENCY COMMENTS

All three of the tax collection agencies we studied expressed general agreement with our conclusions. The Franchise Tax Board concurs with our conclusion that consolidation is not justified at this time. The State Board of Equalization concurs with all four of our recommendations and has already taken action to correct one of the problems we identified. Although the Employment Development Department expressed no major concerns with our report, it believes that our consultant did not conduct its study in sufficient detail to identify and include all potential increases in operating costs associated with a consolidation. The

EDD also stated that Texas does not have a fully consolidated cashiering operation and its operations are not as similar to those of California as our consultant suggests.

INTRODUCTION

The State of California collected approximately \$44.5 billion in revenues during fiscal year 1985-86. The three agencies responsible for the collection of most of the State's revenues are the State Board of Equalization (BOE), the Employment Development Department (EDD), and the Franchise Tax Board (FTB). Each of these three agencies has a cashiering operation that performs tasks such as receiving and sorting mail; opening envelopes and extracting their contents; examining and batching tax documents and checks; putting identification numbers on tax documents; encoding checks and sorting them by bank; and preparing deposits for pickup by a bank courier.

The BOE is responsible for 13 tax programs, which include sales taxes and several other business taxes, and collects the most revenue of any of the State's departments. In fiscal year 1985-86, the BOE collected approximately \$16.2 billion (36 percent) of the State's total revenue. The BOE's cashiering operation is staffed with 71 permanent employees augmented throughout the year with 30 to 166 permanent-intermittent and borrowed permanent employees. A permanent employee works 40 or more hours each workweek and a permanent-intermittent employee works on a permanent basis but works 1,500 or fewer hours annually.

The EDD collects employer and employee contributions to the Unemployment Insurance and Disability Funds and collects the Personal

Income Tax withheld by employers. The EDD also collects the Employment Training Tax from all employers subject to this tax. The EDD has consolidated the collection of the Unemployment Insurance, Disability Insurance, Personal Income Tax, and Employment Training Tax into one program. Employers file the tax-return form "DE3" every quarter to pay these four taxes. Depending on the taxes due, some employers must also file the tax-return form "DE88" to pay Personal Income and Disability taxes one or more times during each quarter. The EDD reported that in fiscal year 1985-86, over 700,000 employers paid the State one or more of these four taxes, which collectively totaled approximately \$11.4 billion (26 percent) of the State's total revenue. To process these tax payments, the EDD has 59 permanent employees and uses from 39 to 187 permanent-intermittent and temporary employees.

The FTB is primarily responsible for administering the Personal Income Tax and the Bank and Corporation Tax programs. In fiscal year 1985-86, the FTB reported that it collected approximately \$9.4 billion (21 percent) of the State's total revenue. The FTB's cashiering operation is staffed with 77 permanent employees and from 43 to 709 permanent-intermittent and temporary employees during the year.

SCOPE AND METHODOLOGY

The purpose of this study was to determine if a consolidation of the cashiering operations of the BOE, the EDD, and the FTB would save the State money. We conducted this study assuming no changes in

governing laws or tax forms would be made. To assist us in our study, we contracted with the management consulting firm of Arthur Young & Company. The firm was contracted to provide some expertise on the cashiering practices of other states and of private industry and to determine the most reasonable way to consolidate the cashiering operations of the BOE, the EDD, and the FTB.

To accomplish its objective, Arthur Young & Company identified the most appropriate location for the placement of a consolidated cashiering operation, identified the number and organization of the personnel needed to staff the operation, and specified the number and types of pieces of equipment to be used in the consolidated system. In addition, Arthur Young & Company proposed a time schedule and an implementation plan for the State to follow in consolidating the cashiering operations of the three agencies and estimated the initial costs of meeting the schedule and the plan. (See Appendix E for the report by Arthur Young & Company.)

Our role during this audit was to ascertain the current costs of the cashiering operations of the BOE, the EDD, and the FTB. We estimated the current costs of personnel, equipment maintenance and supplies, facilities, and other miscellaneous items. We also measured the length of time it took for the three agencies to deposit the tax payments they received. To determine the combined average delay in deposit for the BOE, the EDD, and the FTB, we weighted their respective average delays in deposit by the dollar amounts of the respective tax

payments that they processed. For a detailed description of the methods used in gathering this information, see appendices A through D of this report.

While studying the costs of the cashiering operation at the BOE, we noted some potential problems and expanded our audit to examine them more fully. To estimate the amount of additional interest earnings the BOE would have earned if it had not shut down its check encoding machines for a lunch break before the deadline for the daily bank deposit, we examined the daily deposit reports compiled from January through May 1987. We determined the number of days when checks were processed on one day but held over and not deposited until the following day. We also calculated the value of all checks held over from one day until the next. We then estimated the number and value of the checks that the BOE could have processed during the lunch break on those days when checks were held over. We used a 7.157 percent average interest rate, which was the earnings rate for the State's Pooled Money Investment Account for the month ended February 28, 1987, to estimate the interest those checks would have earned if they were encoded during the lunch period and not held over until the next day.

To determine whether the BOE is requiring its employees to work more overtime than necessary, we compared the BOE's overtime hours to the overtime hours worked by cashiering employees at the EDD. Finally, to determine whether the BOE's Cashier Unit is using a reliable method to forecast its workload and to schedule permanent-

intermittent employees to work, we reviewed the scheduling of these employees for the first five months of 1987.

ANALYSIS

I

CONSOLIDATION OF THE STATE'S THREE LARGEST TAX COLLECTION AGENCIES IS NOT JUSTIFIED AT THIS TIME

If the cashiering operations of the State Board of Equalization (BOE), the Employment Development Department (EDD), and the Franchise Tax Board (FTB) were consolidated, it would provide an estimated savings of approximately \$309,800 in annual operational costs. However, Arthur Young & Company, our consultant, does not anticipate any change in the average delay in the deposit of tax payments. Consequently, we estimate that the consolidated system's average delay would equal the three agencies' combined average delay, which is .49 of a working day. Therefore, interest earnings would neither increase nor decrease as a result of consolidation. Also, our consultant estimates that the initial cost of implementation would be between \$661,200 and \$690,600. In addition, because the federal government now pays part of the cashiering costs of the EDD, we expect that the State would realize only \$112,400 of the \$309,800 in annual savings while the federal government would realize \$197,400. Furthermore, the State could save much of, if not more than, its \$112,400 share of the \$309,800 without consolidating by improving current operations. For example, the BOE could save an estimated \$52,400 to \$139,500 annually by eliminating much of its overtime and eliminating the use of employees who have unnecessarily high salary

rates. Finally, our consultant points out that greater savings could be realized through consolidation if the three agencies standardize their envelopes, tax forms, and procedures. However, we were unable to estimate the amounts that might be saved from these improvements.

The State's three largest revenue agencies were able to process a total of 19.2 million items for calendar year 1986 using 326.9 full-time equivalent employees (FTE).* In addition, during the same period, the combined operational costs for these three revenue agencies was an estimated \$7.9 million. According to our consultant, a consolidated system could process the same number of items annually using 310 full-time equivalent employees. We estimate that the total annual cost to operate the consolidated system would be \$7.6 million. Therefore, the estimated annual savings resulting from a consolidation would be \$309,800. Table 1 shows the annual costs of the cashiering operations of the BOE, the EDD, and the FTB and the estimated annual cost of operation for the consolidated system. Table 1 also shows the number of FTEs that currently staff each agency's cashiering operation and the number of FTEs that our consultant proposed for the consolidated system. See appendices A, B, C, and D for a detailed breakdown of the costs of the cashiering operations of the BOE, the

*A full-time equivalent is equal to one person working full time for one year.

EDD, the FTB, and the consolidated system, respectively. Also, see these appendices for a detailed breakdown of the methods we used to calculate these costs.

TABLE 1
CURRENT SYSTEM OF THREE REVENUE COLLECTION AGENCIES
COMPARED WITH CONSOLIDATED SYSTEM

Agency	Current System Calendar Year 1986	Consolidated System	Difference Increase (Decrease)
Board Of Equalization	64.7		
Employment Development Department	104.9		
Franchise Tax Board	<u>157.3</u>		
Total	<u>326.9</u>	<u>310.0</u>	<u>(16.9)</u>
	<u>Cost of Cashiering</u>		
Board of Equalization	\$1,753,300		
Employment Development Department	2,957,000		
Franchise Tax Board	<u>3,236,600</u>		
Total	<u>\$7,946,900</u>	<u>\$7,637,100</u>	<u>(\$309,800)</u>

To estimate whether tax payments would be deposited any faster under consolidation, we measured the length of time between the receipt of tax payments and their deposit by the three agencies. Our examination of delays in the deposit of tax payments covered calendar year 1986 and portions of March, April, and May 1987 and consisted of 916 tax payments received by the three agencies during their respective peak and nonpeak periods. We assigned a deposit delay of "0" days to tax payments that the agencies deposited on the same day that the payments were received. Otherwise, we determined the number of working days between receipt and deposit. Our results showed that the average delay was .33 of a working day at the BOE, .43 of a working day at the EDD, and .78 of a working day at the FTB. The combined average delay in deposit for the BOE, the EDD, and the FTB was .49 of a working day. Our consultant does not anticipate that the average delay in the deposit of payments would change for the consolidated system. Consequently, we estimate that the consolidated system's average delay would equal the three agencies' combined average delay, which is .49 of a working day. Therefore, interest earnings would neither increase nor decrease as a result of consolidation.

Our consultant also developed an implementation plan for the State to follow in consolidating the cashiering functions of the BOE, the EDD, and the FTB and estimated the nonrecurring cost to implement the plan (see Appendix E for the implementation plan and details of the nonrecurring cost). The implementation plan consists of the following five phases:

- Plan and manage the consolidation;
- Review cashiering requirements and make recommendations;
- Move the BOE to the FTB;
- Move the EDD to the FTB; and
- Evaluate consolidation.

Our consultant estimated that the plan would take two years to implement and the initial cost to the State would be between approximately \$661,200 and \$690,600.

Furthermore, although the operational savings would be approximately \$309,800 annually, the State would share this annual savings with the federal government. A portion of the EDD's cashiering costs are paid by the federal government because the EDD collects and processes federal unemployment taxes as well as state monies. We believe the federal government would also pay a share of the costs of the consolidated system, and, therefore, it would also share in any annual savings resulting from consolidation. Based on the proportion of tax payments that the EDD processes that contain federal monies, the federal government currently pays approximately 64 percent, or approximately \$1,880,600, of the EDD's annual cashiering costs of \$2,957,000. However, we estimate that only 22 percent of all the tax payments that the consolidated system would process would contain federal monies. Thus, we estimate that the federal government would pay approximately 22 percent, or approximately \$1,683,200, of the

annual \$7,637,100 cost of the consolidated system. As a result, the federal government would save approximately \$197,400 annually, and the State's share of the \$309,800 annual savings would be approximately \$112,400.

However, by improving current operations, the State could save much of, if not more than, its \$112,400 share of the total \$309,800 annual amount that we estimate a consolidated system could save. For example, on pages 18 through 21 of this report, we identify certain procedures in the BOE's Cashier Unit that the BOE can improve to realize much of the State's share of the annual savings without consolidation. We estimate that the BOE could save between \$52,400 and \$139,500 annually if it hired more staff rather than paid its current amount of overtime and the unnecessarily high salaries of staff it temporarily assigns to its Cashier Unit from other units. In addition, the Cashier Unit of the BOE could reduce staff costs by at least \$42,000 annually by scheduling daily staffing hours for permanent-intermittent employees in proportion to the expected volumes of mail. If the BOE does not improve its methods of scheduling, any inefficiency in its method of staffing would also be present in the consolidated system because the consolidated system, according to our consultant's projection, would use the same number of hours to process tax payments as are currently used.

Finally, our consultant points out that greater savings could be realized through consolidation if the three agencies standardize

their envelopes, tax forms, and procedures. By standardizing envelopes and tax forms, the consolidated system could eventually take advantage of more sophisticated equipment such as mail sorters with the ability to read through envelopes to bar codes on the back of the tax forms. According to our consultant, who observed this type of equipment in use in the State of Texas, these sorters can also detect if there is a check in an envelope and sort according to the tax program. However, neither we nor our consultant had a basis on which to estimate the amount of savings that could be realized from these improvements.

Also, other factors could increase or decrease the estimated cost of the consolidated system and thus increase or decrease the projected annual savings. However, although we had no basis on which to quantify the effect of these additional factors, they tend to offset each other and, therefore, we believe that they do not alter our conclusions. One factor that could increase the cost of the consolidated system is any added complexity in the processing of tax payments. Increased complexity could arise from any additional tasks needed to meet the different needs of each agency. For example, the three agencies each have different types of payments. Also, the EDD needs to allocate the amounts it collects to different funds and needs to microfilm checks. Added tasks such as these may require more staff time than our consultant allowed for. Alternatively, by employing more employees in job classifications with lower pay scales than we have estimated, the State may be able to decrease the cost of the consolidated system.

CONCLUSION

If the cashiering operations of the State Board of Equalization, the Employment Development Department, and the Franchise Tax Board were consolidated, it would provide an estimated savings of \$309,800 in annual operational costs. However, Arthur Young & Company, our consultant, does not anticipate any change in the average delay in the deposit of tax payments. Consequently, we estimate that the consolidated system's average delay would equal the three agencies' combined average delay, which is .49 of a working day. Therefore, interest earnings would neither increase nor decrease as a result of consolidation. Also, our consultant estimates that the initial cost to implement the consolidation would be between \$661,200 and \$690,600. In addition, because the federal government now pays part of the cashiering costs of the EDD, we expect that the State would realize only \$112,400 of the \$309,800 in annual savings. Furthermore, the State could save much of, if not more than, its \$112,400 share of the \$309,800 without consolidation by improving current operations. As a result of these conditions, we do not believe that consolidation is justified at this time. Finally, our consultant reports that greater savings could be realized through consolidation if the three agencies standardize their envelopes, tax forms, and procedures. However, we were unable to estimate the amounts that might be saved from these improvements.

II

THE STATE BOARD OF EQUALIZATION CAN INCREASE ITS INTEREST EARNINGS AND REDUCE ITS PERSONNEL COSTS

If the Cashier Unit of the State Board of Equalization (BOE) had operated its encoding machines continuously during peak periods, the BOE could have increased interest earnings by approximately \$62,600 in the first five months of 1987. Also, if the BOE had reduced its ratio of overtime hours from 12.8 percent to approximately 2.5 percent of the total hours worked in its Cashier Unit and used permanent-intermittent or temporary employees instead of unnecessarily using employees with higher paid job classifications, the BOE could have reduced its annual staff costs in 1986 by between \$52,400 and \$139,500. Also, the BOE could have reduced its staff costs in the Cashier Unit by at least an additional \$42,000 by scheduling its daily staffing needs in proportion to its expected volumes of mail.

The BOE Is Not Earning as Much Interest as It Could

The staff in the BOE's encoding section operate encoding machines that imprint pertinent information on the front and back of the checks, sort the checks by bank of deposit, and make a list for each bank of the number and amount of checks that the BOE is depositing. Currently, it is standard practice at the BOE that all the staff that operate the encoding machines take a 45-minute lunch from

11 a.m. to 11:45 a.m. every day even though the courier from the bank picks up the BOE's deposit at approximately 1:30 p.m. each day. While this practice minimally affects the BOE's ability to deposit all the tax payments on days that it receives a low volume of tax payments, it does keep the BOE from depositing tax payments on days that it receives a high volume of payments. In contrast, the EDD has enough trained permanent-intermittent employees to operate its encoding machines during lunch periods. According to records maintained by the BOE from January through May 1987, there were 13 days when the BOE was not able to deposit all the Sales Tax payments that it received. The amount of tax payments that were not deposited on the same day that they were received totaled \$562,692,700 for this period.

The State Administrative Manual, Section 8099, indicates that the State is concerned with maximizing interest earnings. Interest earnings can be maximized by the earliest practical deposit of receipts. Methods to deposit monies should be implemented as long as the methods cost less than the interest that would be gained by early deposit.

The State loses interest earnings on days when the deposit of tax payments is delayed to a later day. The operators of the encoding machines at the BOE process an average of 660 to 860 checks per hour. Currently, using the rate of 660 checks per hour, the BOE could encode an additional 5,445 checks a day if it staffed the encoding machines during the 45-minute lunch break. As the average check amount is

approximately \$4,800, we estimate that the encoding staff could process an additional \$26,109,000 daily. Using an interest rate of 7.157 percent, we estimate that the State loses interest earnings of as much as \$7,400 on days when the BOE does not deposit checks until the day after they were received. Therefore, if the Cashier Unit had operated the encoding machines during the normal lunch break on those 13 days that it delayed the deposit of tax payments, the State could have increased its interest earnings by approximately \$62,600.

According to the supervisor of the encoding section in the Cashier Unit of the BOE, the Cashier Unit does not operate the encoding machines during the lunch break because not enough employees are trained to use them and the BOE would need additional staff to operate the encoding machines while the regular encoding staff are at lunch. We estimate that, for the 13 days, the added cost of staffing the encoding machines during lunch would have been approximately \$1,900. We also estimate that the encoding section would need to be staffed during the lunch break for approximately 30 days annually, which would require the equivalent of .25 of a position. According to the chief of the Fiscal Management Division, the BOE is arranging to staff the encoding section in shifts so that it can operate the encoding machines during the lunch break using its current staff.

The BOE Is Paying More for Staffing Than It Should

Although it will always be necessary for the BOE's Cashier Unit to use some overtime to be able to respond to emergencies, the Cashier Unit uses more overtime than necessary.

The Employment Development Department (EDD), which like the BOE's Cashier Unit also has wide variances in the amount of work it performs, staffs its cashiering unit by using permanent-intermittent and temporary employees during periods of heavy workload. As a result, the overtime hours used by the EDD's cashiering unit comprised just 2.52 percent of the total hours worked in cashiering in calendar year 1986. However, the overtime hours that the BOE's Cashier Unit used during the same period comprised 12.8 percent of all the hours worked in cashiering. If the BOE had used the same percentage of overtime hours as the EDD did during calendar year 1986, it would have used 2,930 overtime hours rather than 14,915.

The Cashier Unit of the BOE "borrows" employees from other units to assist in the processing of tax payments during periods when the BOE receives high volumes of tax payments. During 1986, the "borrowed" employees worked approximately 11,100 hours for the Cashier Unit; approximately 5,000 of these hours were for overtime. The borrowed employees normally work for other units at the BOE such as Account Reference, Audit Control, Central Files, Local Tax, Mailroom, Occasional Sales, Return Review, and Word Processing. The borrowed

employees generally earn higher salaries than the Cashier Unit's employees who are performing the same tasks. For example, an Account Clerk II in the Cashier Unit opens mail, extracts the contents, and reviews tax returns and payments; the monthly salary for this position is \$1,510. One of the borrowed employees from the Account Reference Unit performs the same tasks but is classified as a Supervising Program Technician III; the median monthly salary for this classification is \$2,185.

The cost to the BOE of overtime hours and of hours that the borrowed employees work greatly exceeds the cost of employing permanent-intermittent employees. Employees who work overtime are either paid at one and one-half times their standard wage rate or receive one and one-half times the hours worked in compensating time off. The standard wage rate and compensating time off include a benefit rate of 32.78 percent. The cost of paid overtime includes the State's contribution rate for Social Security of 7.15 percent. During 1986, cashiering and mailroom employees worked 7,849 hours of overtime for pay at an average cost of \$13.90 per hour and 2,059.15 hours of overtime for compensating time off at an average cost of \$18.58 per hour. Additionally, employees that were borrowed by the Cashier Unit worked 5,006.8 hours at the overtime rate for pay at an average cost of \$15.55 per hour and 6,080.7 hours at the standard wage rate at an average cost of \$12.53 per hour. If the Cashier Unit had staffed these hours with permanent-intermittent employees working at the standard wage rate, the Cashier Unit would have paid an average of only \$10.88 per hour.

Thus, in 1986, if the BOE had hired enough permanent-intermittent employees to equal ten full-time positions, it could have avoided paying for up to 11,900 hours of overtime and 6,000 hours worked by borrowed employees and saved approximately \$52,400. Alternatively, the BOE could use temporary employees at the seasonal clerk level, as the EDD and the FTB currently do, to extract payments from envelopes, to add up the total of taxes owed, and to perform other miscellaneous duties requiring minimum skill levels. Seasonal clerks cost approximately \$6.70 per hour. Consequently, if the BOE had used the full-time equivalent of an additional ten temporary employees to perform these duties, the BOE could have saved approximately \$139,500. Furthermore, we did not include all the costs of using borrowed employees in our calculation of the cost to the BOE of using borrowed employees with higher paid job classifications. For example, we were unable to determine the amount of overtime necessary for borrowed employees to complete work in their own units that was not accomplished while they were working for the Cashier Unit.

According to the chief of the Fiscal Management Division, the BOE has never formally requested from the Department of Finance the additional positions necessary to eliminate paying so much overtime and the higher salaries of the borrowed employees. When the BOE submits a request for additional resources, it does not consider all of its current requirements. During the budgeting process, the BOE requests additional positions based on the percentage increase in the number of tax returns that the BOE projects for the next fiscal year. The BOE

applies this projected increase to its current staffing levels in the mailroom and Cashier Unit; however, these current staffing levels do not reflect the borrowed help that the Cashier Unit receives, nor do they reflect the extensive use of overtime. Therefore, the Department of Finance is not being apprised of the true amount of resources required to process tax payments because the BOE is not furnishing accurate information concerning its needs.

The BOE Is Not Using a
Reliable Method for Scheduling
Its Permanent-Intermittent Staff

The BOE's Cashier Unit uses an ineffective method of scheduling that leads to permanent-intermittent employees working on days when they are not needed. This ineffective scheduling incurs unnecessary costs. One of the criteria sometimes used by the BOE's Cashier Unit when it schedules its permanent-intermittent staff to work during the current year is to check the volume of mail received in the prior year. If the BOE received over 20 trays of mail on a day in the previous year, the Cashier Unit will schedule its permanent-intermittent employees to work on the corresponding day in the current year.* The BOE uses the criteria of 20 trays because, historically, when the BOE receives less than 20 trays, the Cashier Unit has enough full-time employees to deposit all tax payments on the same day that they are received. However, the Cashier Unit does not use this

*Each day the BOE collects the tax returns it receives in containers called "trays." There are 720 returns in a tray.

criteria as its primary one in planning the current year's schedule of permanent-intermittent employees. Instead, the supervisor of the Cashier Unit refers to the previous year's work schedule and, regardless of the volume of mail, generally schedules all the permanent-intermittent employees to work on the same days in the current year as they worked in the previous year. She does, however, make adjustments to the current year's work schedule according to the day of the week that various taxes are due and also the days when holidays fall in the current year. Only if she is still unsure whether she should schedule the permanent-intermittent employees on a given day or not would she refer to the daily records showing the number of mail trays the Cashier Unit received in the previous year.

We reviewed this method of scheduling and found that on 10 (14.4 percent) of the 69 days that permanent-intermittent employees worked during the period January through May 1987, the Cashier Unit had not received 20 or more trays in 1986, and on 9 of those 10 days the Cashier Unit did not receive 20 or more trays in 1987. Because the Cashier Unit does not use the previous year's tray count as its primary scheduling criteria, it schedules more employees than it needs to process the mail it receives and, therefore, incurs unnecessary costs. The unnecessary cost of permanent-intermittent staff working on the 9 days when employees were not needed was approximately \$17,500 for the 9 days. Therefore, on an annual basis we estimate that the BOE is paying approximately \$42,000 for permanent-intermittent employees to work for the Cashier Unit on days when they are not needed.

Furthermore, we believe that the Cashier Unit's practice of scheduling all or none of its permanent-intermittent employees to work is ineffective. The Cashier Unit employed an average of 28 permanent-intermittent staff during calendar year 1986. The BOE's criteria would dictate that all permanent-intermittent employees be scheduled in the current year for any corresponding days worked in the previous year or on days when 20 or more trays were received in the previous year. However, if the full-time staff can process up to 20 trays of mail without additional help, it would be clearly inefficient to schedule all permanent-intermittent employees to work on days when 21 trays were received.

The supervisor of the Cashier Unit stated that she schedules the entire permanent-intermittent staff to work during peak periods to ensure that there are enough staff to process all the returns received. The chief of the Fiscal Management Division has stated that it is the BOE's policy to lend its permanent-intermittent employees to other work units whenever they have been scheduled to work and there is not enough work for them to do in the Cashier Unit. However, the BOE could not provide documentation that its permanent-intermittent employees were on loan to other units on the nine days when they were scheduled to work in the Cashier Unit but were not needed.

CONCLUSION

The State Board of Equalization does not operate its encoding machines during the daily lunch break, and, as a result, the BOE lost approximately \$62,600 in interest earnings. Also, the BOE has incurred unnecessary staff costs of up to \$139,500 because it is using more overtime than necessary and is paying too much for staff who perform tasks that could more appropriately be done by employees who are paid less. Finally, the BOE's Cashier Unit has spent approximately \$42,000 unnecessarily by scheduling more permanent-intermittent staff than is necessary.

RECOMMENDATIONS

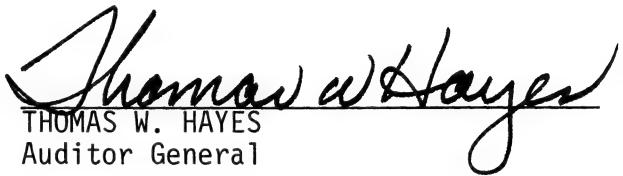
To earn as much interest as it can and to reduce its staff costs, the State Board of Equalization should take the following actions:

- Arrange to staff the encoding section in shifts using its current staff so that the encoding machines are operated continuously until the daily deposit is collected by the bank courier. If this is not possible, the BOE should hire and train the equivalent of .25 of a position to staff the encoding section during the lunch break;

- To replace borrowed employees and to avoid excessive overtime hours, hire additional permanent-intermittent employees or temporary employees equivalent to ten full-time employees to work in the Cashier Unit;
- Consistently forecast the daily volume of mail for the Cashier Unit based on the previous year's volume, and then schedule permanent-intermittent staff in proportion to the expected daily workload; and
- Adjust the scheduling to reflect any unexpected changes in the daily volume of mail.

We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,



THOMAS W. HAYES
Auditor General

Date: August 10, 1987

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APPENDIX A

THE STATE BOARD OF EQUALIZATION THE ANNUAL COST OF THE CASHIERING OPERATION AND THE AVERAGE DELAY IN THE DEPOSIT OF FUNDS

We estimate that the total annual cost of the cashiering operation at the State Board of Equalization (BOE) is \$1,753,300 and that the average delay in the deposit of funds is .33 of a working day.

ANNUAL COST OF THE CASHIERING OPERATION

The Cashier Unit and the mailroom of the BOE are responsible for the BOE's cashiering operations. Our estimate of the total cost of the BOE's cashiering operations is composed of the following categories: personnel costs, equipment maintenance and supply costs, facility costs, and telephone costs. Table A-1 shows the breakdown of the total annual cost of cashiering at the BOE.

TABLE A-1
**STATE BOARD OF EQUALIZATION
ANNUAL COSTS OF CASHIERING**

<u>Cost Category</u>	<u>Number of Full-Time Equivalents*</u>	<u>Estimated Annual Cost</u>
Personnel		
Permanent staff	64.7	\$1,618,900
Temporary staff	--	--
Total Personnel	<u>64.7</u>	<u>1,618,900</u>
Equipment maintenance and supplies		51,100
Facilities		72,400
Telephones		<u>10,900</u>
Total Costs of Cashiering		<u>\$1,753,300</u>

*A full-time equivalent is equal to one person working full time for one year.

Personnel

The BOE personnel involved in cashiering include employees of the mailroom and the Cashier Unit. To determine the hours for which employees of the mailroom and Cashier Unit were compensated during calendar year 1986, we examined monthly attendance records and recorded the number of hours that the employees worked. The hours include sick leave and vacation time for all permanent full-time employees and for the permanent-intermittent employees who receive paid leave. These hours also include overtime hours. Because the Cashier Unit and mailroom do not use a time-reporting system that separately identifies the number of hours spent on cashiering duties, we reviewed job descriptions and interviewed the supervisors in the mailroom and Cashier Unit to determine what percentage of each employee's time was spent performing cashiering duties.

We estimated the salary cost for employees of the mailroom and the Cashier Unit by applying the middle step of the salary range for each employee's classification, using the pay schedules in effect from July 1986 through December 1987. We included the cost of benefits in the salary cost by using a rate supplied by the BOE. Benefits include the State's contribution to retirement, Social Security, and health coverage. We applied a benefit rate of 32.78 percent to all straight-time hours that the Cashier Unit and mailroom employees worked and to the overtime hours for which the employees received compensating time off (CTO) instead of pay. To overtime hours worked for pay, we applied a benefit rate of 7.15 percent, which covers the State's contribution to Social Security. To estimate the hourly salary cost of overtime worked for CTO, we multiplied the hourly wage plus benefits by one and one-half.

When the workload of the Cashier Unit is heavy, the BOE borrows employees from other units. We estimated the cost of these borrowed employees based on attendance records kept by the Cashier Unit. These records contained the number of hours that the borrowed employees from eight other units worked for the Cashier Unit during each month of calendar year 1986. To determine the average hourly wage of the borrowed employees, we contacted each of the units from which the employees were borrowed and identified the classification of the employees. We determined an average hourly wage for each unit weighted by the number of employees in each classification. We then calculated an average hourly wage for all eight units together by weighting each unit's contribution to the total number of borrowed hours. We then determined an overall average hourly wage that includes the cost of benefits by multiplying the average hourly wage by the benefit rate of the BOE. We multiplied this hourly rate by the number of straight-time hours that the borrowed employees worked.

Some of the borrowed employees worked overtime for pay. These employees were paid one and one-half times their normal hourly rate for their work for the Cashier Unit. To determine the hourly cost of overtime worked for pay, we multiplied the hourly rate for the middle

step in the salary range of the employees' classification by one and one-half and then added the cost of benefits (7.15 percent) associated with paid overtime hours.

Equipment Maintenance and Supplies

The BOE incurs annual costs to maintain and provide supplies for equipment that it uses to process tax payments. To capture these costs, we developed a list of the equipment that the BOE uses. We identified the equipment by reviewing reports maintained by the BOE that show the property assigned to the mailroom and to the Cashier Unit. We validated our list by interviewing the supervisors of the mailroom and the Cashier Unit. Some of the equipment is not used solely for processing payments; therefore, we had to estimate, with the assistance of the supervisors, the portion of the total maintenance and supply costs that are attributable to processing tax payments. We estimated annual maintenance costs for equipment based on the BOE's service contracts. Similarly, we estimated annual supply costs from the BOE's supply contracts. Although there were some maintenance and supply costs we could not estimate, these costs are immaterial.

Facilities

To estimate the costs of the facilities that the BOE uses for cashiering, we first determined the amount of space used in the Cashier Unit and the mailroom for the purpose of processing tax payments. We then multiplied the square footage by the rental rate that the Department of General Services currently charges; the rate is \$.81 per square foot monthly or \$9.72 per square foot annually.

By measuring, we estimated that only 80 percent of the cost of the floor space of the Cashier Unit is attributable to the processing of tax payments. Additionally, we estimated the amount of space that the mailroom at the BOE would use for handling tax payments if a consolidated cashiering operation was established at another location. We estimated this amount based on space allocations for the number of people and the machinery required to process the payments at the BOE. Finally, the borrowed employees work at their own desks in the other units while assisting the Cashier Unit. Therefore, we did not consider the cost of the space associated with these employees to be a cost of the BOE's cashiering operation.

Telephones

The telephone costs for the BOE represent the estimated telephone charges for the Cashier Unit for fiscal year 1986-87. The BOE provided records showing all the Pacific Bell and ATSS telephone charges that the Cashier Unit incurred for the first eleven months of the 1986-87 fiscal year. They also provided us with records for the first ten months of charges for AT&T. We estimated the charges for the remaining months using the average of the charges for the previous months. Although we were unable to estimate the telephone costs for the cashiering portion of the mailroom's telephone charges, we believe this cost is immaterial.

AVERAGE DELAY IN DEPOSIT

Our estimate of the average delay in deposit at the BOE is based on a sample of 244 tax payments. We tested 171 tax payments from March 25 and 26, 1987, when the BOE received a high volume of tax payments. We also tested 73 tax payments from April 23 and 24, 1987, when the BOE received a low volume of tax payments. We reviewed the tax payments as they arrived from the post office and recorded the date of receipt, the taxpayer's name and account number, and the amount of the payment. In the taxpayer's file, we later identified the date that the BOE deposited the sampled tax payment. We assigned a deposit delay of "0" days to tax payments that the BOE deposited on the same day that they were received. Otherwise, we determined the number of working days between receipt and deposit. After we computed the average delay for both samples, we weighted the samples by the relative proportion of tax dollars that the BOE received during high-volume and low-volume periods during calendar year 1986 by the average dollar amount of the payments. Using this method of calculation, the weighted average delay in deposit is .33 of a working day.

APPENDIX B

THE EMPLOYMENT DEVELOPMENT DEPARTMENT THE ANNUAL COST OF THE CASHIERING OPERATION AND THE AVERAGE DELAY IN THE DEPOSIT OF FUNDS

We estimate that the total annual cost of the cashiering operation at the Employment Development Department (EDD) is \$2,957,000 and that the average delay in the deposit of funds is .43 of a working day.

ANNUAL COST OF THE CASHIERING OPERATION

The Cashiering Group of the EDD is responsible for the EDD's cashiering operations. Our estimate of the annual cost of the EDD's cashiering operations is composed of the following categories: personnel costs, equipment maintenance and supply costs, facility costs, telephone costs, and express mail service costs. Table B-1 shows the breakdown of the annual cost of cashiering at the EDD.

TABLE B-1
EMPLOYMENT DEVELOPMENT DEPARTMENT
ANNUAL COSTS OF CASHIERING

Cost Category	Number of Full-Time Equivalents*	Estimated Annual Cost
Personnel		
Permanent staff	86.7	\$2,297,100
Temporary staff	18.2	<u>336,300</u>
Total Personnel	<u>104.9</u>	<u>2,633,400</u>
Equipment maintenance and supplies		90,600
Facilities		146,900
Telephones		14,000
Express Mail		<u>72,100</u>
Total Costs of Cashiering		<u>\$2,957,000</u>

*A full-time equivalent is equal to one person working full time for one year.

Personnel

To estimate the annual personnel costs for the Cashiering Group, we multiplied our estimate of the number of hours that employees who performed cashiering duties were paid in calendar year 1986 by the average cost per paid hour for the Cashiering Group's operations. We used the average cost because the Cashiering Group has employees in several different job classifications and the number of employees in these classifications varies throughout the year.

We estimated the number of hours used to process tax payments in calendar year 1986. These hours do not include hours used for supervision, administration, answering taxpayers' inquiries, activities such as recovering overpayments from taxpayers, and annual leave and vacations. We based our calculation of the number of hours used to process tax payments on timekeeping records for the first eight months of 1986. However, we had to estimate the hours for the last four months of 1986 because the EDD implemented an automated accounting system in September 1986 that temporarily interfered with the EDD's timekeeping system.

We also estimated the total number of hours for which employees of the Cashiering Group were paid in 1986. These hours included leave and vacation hours. To make this estimate, we first determined the productivity rate for February 1987, which we calculated as the average number of tax payments the Cashiering Group processed per paid hour during that month. Using the productivity rate for February, we then estimated the number of paid hours for the last four months of 1986 based on the number of tax payments processed during that period. Finally, we added the number of paid hours for the last four months of calendar year 1986 to the number of paid hours for the first eight months to estimate the total number of paid hours for the Cashiering Group.

To calculate the average hourly wage for the employees, we reviewed the August 1986 revision of the Classification and Pay Plan for the EDD to determine the middle step of the monthly salary range for each classification of employee in the Cashiering Group. We converted monthly salaries to hourly wages and calculated the average hourly wage for permanent employees weighted by the number of employees in each personnel classification. The Cashiering Group uses only one classification for temporary employees, and we used the middle step of the monthly salary range for this classification as the average monthly salary for all temporary employees. We converted the average monthly salary to an equivalent hourly wage. We calculated the benefit rate for permanent staff to be 34.1 percent of salary paid and the benefit rate for temporary staff to be 4.9 percent. We based our calculations of the benefit rates upon information we obtained from the Financial and Budget Systems Section and the Personnel Section of the EDD. We applied these rates to the hourly wages to obtain the average hourly cost for permanent and temporary employees.

Equipment Maintenance and Supplies

The annual cost for equipment that the EDD uses to process tax payments includes the cost of maintenance contracts, leases, and supplies and also repairs not covered by a maintenance contract. It also includes the cost of operating a truck that the Cashiering Group uses to collect mail from the post office at night. We estimated the annual maintenance cost for most equipment that the Cashiering Group uses based upon the rates in the EDD's most recent maintenance contracts. To estimate the annual maintenance cost of equipment that is not under a maintenance contract, we totaled the amount the EDD paid in calendar year 1986 for repairs. The Cashiering Group leases its computer equipment from the Health and Welfare Agency Data Center. We reviewed invoices to determine the monthly lease rates in effect during February 1987 for computer equipment, and we converted these monthly rates to an estimated annual cost. To estimate the annual cost of supplies, we obtained cost data from manufacturers and relied upon EDD staff for estimates of annual supply requirements. We estimated the total annual cost for equipment maintenance and supplies for the EDD by adding together the costs of annual maintenance, leases, and supplies for each piece of equipment.

Facilities

To estimate the costs of the facilities that the EDD uses for cashiering, we multiplied the square footage by the rental rate that the Department of General Services currently charges; the rate for fiscal years 1986-87 and 1987-88 is \$.81 per square foot monthly or \$9.72 per square foot annually. The rental rate includes janitorial services, maintenance, routine repairs, and all utilities except telephone services. The records of the Building Agent's Office of the EDD show that the Cashiering Group occupied 16,310 square feet of floor space in January 1987. We observed the amount of floor space the EDD uses for each of its cashiering duties and estimated that the EDD uses approximately 1,200 square feet of floor space for duties that are not included in the proposed consolidated cashiering operation. Based on this estimate, we concluded that the cost of approximately 15,110 square feet of floor space should be included in the cost of the EDD's cashiering operation.

Telephones

Telephone costs include ATSS telephone service charges, AT&T equipment lease costs, and Pacific Bell Centrex service charges. We estimated the annual costs of ATSS service based upon a sample of seven monthly invoices from 1986. We estimated the annual costs of Centrex service by multiplying the number of Centrex lines serving the Cashiering Group by the estimated cost per line, which the Department of General Services provided to us. We could not include the lease costs of equipment because necessary data were not available.

Express Mail

The EDD has implemented an experimental express mail program in an attempt to accelerate cash flow by reducing mail delays. The costs of this program include fees for the use of post-office boxes, fees for sweep service, and charges for shipping.* To determine the annual costs for the program, we reviewed bills for calendar year 1986.

AVERAGE DELAY IN DEPOSIT

To determine the Cashiering Group's average delay in depositing checks in the bank, we examined samples of incoming tax payments and traced them from the date of receipt at the EDD to the date of deposit in the banks. Each day, the EDD collects mail from the post office at approximately 3:30 a.m., 7:30 a.m., and 11:00 p.m. Because the bank courier picks up the EDD's deposit at approximately 1:30 p.m. each day, we considered all mail that the EDD received after 12:00 p.m. to be part of the mail it receives on the following day.

*Sweep service occurs when the post office collects mail from the rental boxes for shipping.

We examined a sample of tax payments from each of the three daily deliveries of mail. Our samples included checks for each major type of tax payment: tax payments due up to eight times a month, known as "eighth-monthly" tax returns, and tax payments due every quarter and coded either "red" or "green." We sampled these three types of returns separately because the Cashiering Group assigns different processing priorities to each type. We did not examine checks that the EDD received for prior quarter adjustments, School Employees Fund payments, Disability Insurance Voluntary Plan payments, Disability Insurance Elective Coverage payments, Unemployment Insurance Reimbursed Benefits, and miscellaneous payments including penalty assessments. These unexamined payments constituted only 6.1 percent of all payments processed and only 2.4 percent of the cash deposited by the Cashiering Group in calendar year 1986.

The proportion of checks from each type of payment in our sample was the same as the proportion of each type of payment to the total number of payments processed by the Cashiering Group. We selected a sample of 211 checks during the first week of April 1987 when the volume of incoming tax returns was low. We selected another sample of 101 checks during the first week of May 1987 when the volume of incoming tax returns was high. For each check, we recorded the date of receipt by the EDD and the date of deposit in the banks. We obtained the date of deposit for checks in our April sample from the employer-payment records in the automated tax accounting system, and we obtained the date of deposit for checks in the May sample by intercepting these checks at the encoding machines, just before deposit. We calculated the delay, if any, in depositing the checks in the banks. Then we calculated the deposit delay in working days for all checks for each type of return. Finally, we calculated the average delay in depositing all checks in the banks as a weighted average of the average delays for the various types of returns. To do this, we determined the percent of the total amount deposited that each type of return represents, and we multiplied this percent by the average delay for each type of return. We added these amounts to determine the overall average delay for the EDD, which is .43 of a working day.

APPENDIX C

THE FRANCHISE TAX BOARD THE ANNUAL COST OF THE CASHIERING OPERATION AND THE AVERAGE DELAY IN THE DEPOSIT OF FUNDS

We estimate that the annual cost of the cashiering operation at the Franchise Tax Board (FTB) is \$3,236,600 and that the average delay in the deposit of funds is .78 of a working day.

ANNUAL COST OF THE CASHIERING OPERATION

The Receiving and Transcriptions sections of the FTB are responsible for the FTB's cashiering operations. However, before January 1987, the Receiving Section (section) of the FTB processed tax documents, both those that included tax payments and also those that did not. We estimated the total cost to the section of processing only tax documents that contained payments. To do this, we determined, from the total number of tax documents that the section received, the percentage that contained payments. We then applied this percentage to our estimate of the section's costs in the following categories: personnel costs, equipment maintenance and supply costs, facility costs, and telephone costs. Table C-1 shows the breakdown of the total annual cost of cashiering at the FTB.

TABLE C-1
FRANCHISE TAX BOARD
ANNUAL COSTS OF CASHIERING

<u>Cost Category</u>	<u>Number of Full-Time Equivalents*</u>	<u>Estimated Annual Cost</u>
Personnel		
Permanent staff	59.0	\$1,439,200
Temporary staff	98.3	<u>1,353,000</u>
Total Personnel	<u>157.3</u>	<u>2,792,200</u>
Equipment maintenance and supplies		65,900
Facilities		365,000
Telephones		<u>13,500</u>
Total Costs of Cashiering		<u>\$3,236,600</u>

*A full-time equivalent is equal to one person working full time for one year.

Personnel

To estimate the personnel costs of the section, we identified the number of hours that employees worked processing tax payments and the wage and benefit rates of these employees. We obtained the number of hours that the permanent and temporary employees worked from monthly reports available at the FTB. For each month of calendar year 1986, we applied the percentage of tax documents that contained payments to estimate the hours that temporary and permanent employees worked processing tax payments. We used timekeeping and salary reports for each month in 1986 to estimate the average hourly wage for both temporary and permanent employees. To make this estimation, we divided the total number of hours that employees worked in 1986 into the total salaries they received in 1986.

We calculated the average hourly cost of overtime by multiplying the average hourly wage by one and one-half. The benefit rates in 1986 for FTB employees were 14.1 percent for temporary staff for both regular and overtime hours, 31.33 percent for permanent staff working regular hours, and 15.88 percent for permanent staff working overtime hours. Benefits include the State's contribution towards employee retirement, health benefits, and unemployment compensation.

To estimate the total hourly cost for temporary and permanent staff, we increased their respective hourly wages by their respective benefit rates.

Equipment Maintenance and Supplies

To estimate the cost to maintain the equipment used by the section, we totaled the amounts that the FTB paid in 1986 under its maintenance agreements for this equipment. The equipment in the mailroom is not used solely for processing tax payments; therefore, we estimated the portion of the total maintenance costs that is attributable to processing payments. To estimate the cost of supplies for equipment, we totaled the amounts that the FTB reported it paid in 1986 for supplies for the section.

Facilities

We estimated the cost of the facilities used by the section by first determining the square footage used in the processing of tax documents. This square footage amounted to 60,144. We then estimated the amount of square footage attributable to processing just tax payments. This square footage amounted to 28,337.

Next, we multiplied the square footage used to process tax payments by the estimated 1986 annual cost per square foot; this cost comprises \$9.63 for use of the property, \$.93 for utilities, \$1.53 for maintenance of buildings and grounds, and \$.79 for janitorial services. We obtained these estimated costs per square foot from a report in November 1986 by the director of the Facilities and Business Services Bureau of the FTB. We tested and found these estimates reasonable.

Telephones

To estimate the cost of telephones used by employees in the section, we obtained from the FTB an average cost for each permanent employee who was not performing certain duties, for example, compliance or field duties. We then multiplied this average cost for each permanent employee by the number of authorized permanent positions in the section.

AVERAGE DELAY IN DEPOSIT

To estimate the average delay in the deposit of tax payments at the FTB, we drew a sample of payments that was representative of a peak-processing period and a sample that was representative of the remainder of the year from Bank and Corporation Tax payments and also from Personal Income Tax payments. We then had four samples totaling 360 payments. Two of the samples consisted of 52 payments for Bank and Corporation Tax and 159 payments for Personal Income Tax, which the FTB received between April 13 and April 24, 1987. We checked mail as it arrived at the loading dock and noted the date and whether it arrived during the morning or afternoon. We obtained the date of deposit by having the FTB staff intercept checks just before deposit

and record the time and date. The other two samples consisted of 45 payments of Bank and Corporation Tax and 104 payments of Personal Income Tax, which the FTB received during calendar year 1986 excluding April 15 through April 24. We selected a random sample of these payments by using the identification numbers assigned to each payment. We then recorded the date of receipt and deposit that the FTB records specified.

The date on which each tax payment was received by the FTB was compared to the date on which it was deposited. We assigned a deposit delay of "0" days to tax payments that were deposited on the same day that they were received. Otherwise, the number of working days between receipt and deposit was calculated. Finally, we computed the average delay in depositing all checks in the bank as a weighted average of the average delays for the various groups. To do this, we determined the percent of the total amount deposited that each group represents, and we multiplied this percent by the average delay for each group. We added these amounts to determine the overall average delay for the FTB, which is .78 of a working day. To compare the results of our tests, we reviewed data concerning 279 tax payments that had been sampled by internal auditors of the FTB and financial auditors of the Auditor General's Office during other reviews.

APPENDIX D

THE ANNUAL COST OF A CONSOLIDATED CASHIERING SYSTEM

We estimate that the consolidated cashiering system proposed by our consultant would cost \$7,637,100 annually to operate. This total cost is composed of the following categories: personnel costs, equipment maintenance and supply costs, facility costs, and other costs. Table D-1 shows the breakdown of the total estimated annual cost of a consolidated system.

TABLE D-1
CONSOLIDATED CASHIERING FACILITY
ESTIMATED ANNUAL COSTS OF CASHIERING

<u>Cost Category</u>	<u>Number of Full-Time Equivalents*</u>	<u>Estimated Annual Cost</u>
Personnel		
Permanent staff	184.0	\$4,574,200
Temporary staff	126.0	1,977,800
Increment for overtime	_____	90,200
Total Personnel	<u>310.0</u>	<u>6,642,200</u>
Equipment maintenance and supplies		204,600
Facilities		679,800
Other	_____	110,500
Total Costs of Cashiering		<u>\$7,637,100</u>

*A full-time equivalent is equal to one person working full time for one year.

Personnel

Personnel costs comprise the salaries and benefits, including a provision for paid overtime, that the State would pay annually to operate the proposed consolidated system. Our consultant provided an organization chart (see page IV-17 of Appendix E) that groups the employees for the proposed system into six general levels: temporary production workers, permanent production workers, clerical workers, supervisors, managers, and an administrator. Finally, our consultant noted the specific job classifications of the employees who would work for the consolidated system.

To determine the salaries for the proposed job classifications, we consulted "California State Civil Service Pay Scales," a manual published by the Department of Personnel Administration. For each specific classification, the manual identifies an initial monthly salary and four salary steps, each reflecting incremental increases. We selected the middle step as the monthly salary rate to use for estimating the cost of the annual salaries for employees in each classification. Some classifications specified by our consultant comprised several levels, each level having its own set of salary steps. For example, the general job classification of "Office Services Manager" (OSM) comprises the specific levels of OSM Is and OSM IIs; however, the consultant did not state the level of OSM that would be used in the facility. Whenever the consultant did not state a particular level of job classification, we selected the average of the middle salary steps for each of the levels to use as the monthly salary rate for employees in that classification. In addition, we determined some of the classifications and levels used to calculate personnel costs for the consolidated system based on information from the Department of Personnel Administration and other sources.

After determining the monthly salary rate for each classification, we calculated the number of full-time equivalents for each classification that the consolidated system would require each month. In addition to specifying job classifications of workers, our consultant estimated the number of full-time equivalents required to process the volume of tax payments and taxpayer documents that the system would receive each month. Our consultant also specified the number of full-time equivalents in the clerical, supervisor, management, and administrator job classifications. We multiplied the number of full-time equivalents by the appropriate monthly salary rates and added the monthly totals to estimate the total annual salary cost. We performed this calculation separately for both temporary and permanent employees.

Next, we calculated the cost of benefits that the State would have to provide by determining appropriate benefit rates for employees of the consolidated system. Because benefits for temporary employees cost less than those for permanent employees, we calculated the appropriate rates separately for the two categories of employees. We used the same procedures for calculating both, however. To estimate

the appropriate benefit rate, we added together the benefits paid to permanent employees by each agency in 1986 and the benefits paid to temporary employees by the EDD and the FTB in 1986. We divided the sum of benefits for each category of employee by the total of the appropriate temporary or permanent wages paid by the three agencies. This calculation yielded a rate of benefits paid expressed as a percentage of total salaries paid for each of the two categories of employees. To obtain the total benefits for the consolidated system, we then multiplied the benefit rate for each category by the total salaries for each category. To obtain the total personnel costs for the consolidated system, we added the total wages and the total benefits.

Finally, since employees must currently work some overtime hours at each of the three agencies, we assumed that the consolidated system would also require its employees to work some overtime hours. The State pays an extra amount to workers who work overtime; however, our method of calculating wage and benefit costs for the consolidated system did not include a provision for the extra pay for overtime. To estimate the incremental cost of overtime, we calculated the percentage of overtime hours that we expect the employees of the consolidated system to work based on the rate of overtime hours worked at the EDD and the FTB in 1986. In addition, we adjusted the rate of overtime for the BOE because, as discussed on pages 18 through 21 of this report, the BOE used an excessive amount of overtime. We, therefore, applied the EDD's percentage of overtime to the total hours worked at the BOE to determine a more reasonable number of overtime hours to attribute to the BOE's workload at the consolidated system.

We then divided the sum of these overtime hours by the sum of the total processing hours used by each agency. To determine the amount of wages to be paid that should include extra pay for overtime, we multiplied the resulting percentage by the total wages that would be paid to employees of the consolidated system. We multiplied this total amount by the rate of extra overtime pay, which is one-half of an employee's regular pay. Finally, we multiplied the resulting amount by the Social Security rate the State would have to pay on the additional overtime salaries. We added this final amount to the extra overtime pay to estimate the incremental cost of overtime for the consolidated system. If the system allows employees to receive compensating time off instead of extra overtime pay, the cost of the consolidated operation will increase.

Equipment Maintenance and Supplies

Our consultant developed a list of the equipment necessary to process the volume of payments that a consolidated system would receive (see pages IV-43 to IV-51 of Appendix E for a description of the method used to identify necessary types and quantities of equipment). The three agencies already own or lease most of the pieces of equipment identified. We assumed that the maintenance, lease, and most supply costs we have estimated for those pieces of equipment would be the same for the consolidated system. (See appendices A, B, and C for the

equipment maintenance and supply costs of each of the three agencies.) In addition to the equipment already owned by the three agencies, our consultant specified that the consolidated system would need to obtain a truck with an enclosed cargo area that is 12 feet long for delivering returns to the BOE and the EDD after the consolidated system had processed the accompanying payments. We estimated an annual lease cost for the truck based on the cost of a similar truck recently purchased by Caltrans. Also, our consultant determined that the consolidated system would require an additional controller for some of the computer equipment. Our consultant estimated that the annual cost for a controller is \$468. Finally, our consultant determined that the system could use a microfilmer. The consultant estimated that the annual cost of supplies and maintenance for a microfilmer would be \$6,000. We included this cost in our estimate even though our consultant felt that the microfilmer was optional.

As well as the equipment explicitly identified by our consultant, the consolidated system will require some telecommunications equipment not currently used. The BOE, the EDD, and the FTB each maintain separate data bases that contain information on each taxpayer's account. The cashiering units at each agency currently have access to their own data base so that they can process payments not accompanied by enough information. The consolidated system must have the necessary equipment to link it to the data bases of the BOE and the EDD so that these problem returns can still be processed. Maintaining the links would require the lease and installation of telecommunication lines that would transmit data between the consolidated system and the two agencies. We obtained estimates of the cost of installation and of leasing the necessary equipment from personnel at the BOE and the EDD. We assumed that no extra costs would arise from the data base requirements of the FTB since our consultant stipulated that the consolidated system would be located at the FTB.

Facilities

The total cost of the facility for the consolidated operation comprises both lease costs and operating costs. We estimated these costs based on the number of square feet that our consultant determined would be necessary to house the consolidated system. However, the recommended square footage exceeds the space available at the FTB, where our consultant stipulated that the State should locate the system. Therefore, we assumed that the State would have to construct additional building space at the FTB. We determined the cost of the additional space based on construction and lease information provided by the FTB. To obtain total lease costs, we added the cost of the additional space to the FTB's annual cost for the space it currently uses for processing tax payments.

We also estimated the costs necessary for operating the system, including the costs for janitorial service, building and grounds maintenance, and utilities. Using the rate per square foot of building space that the FTB currently pays, we multiplied that rate by the total square feet our consultant specified for the consolidated system.

Other Costs

The other costs to operate the proposed system comprise the estimated cost of providing telephone service and the cost of the EDD's experimental express mail program. Since our consultant did not identify any factors arising from consolidation that would reduce or increase current telephone costs, we concluded that the total costs incurred by the BOE, the EDD, and the FTB provided the most accurate estimate of telephone costs for the consolidated system. Further, we assumed that the experimental express mail program of the EDD would continue at the cost that it currently incurs.

Office of the Auditor General

**Consolidated
Cashiering
Conceptual
Design**

FINAL REPORT

June 1987



A MEMBER OF ARTHUR YOUNG INTERNATIONAL

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June 19, 1987

Mr. Thomas W. Hayes
Auditor General
660 J Street, Suite 300
Sacramento, California 95814

Dear Mr. Hayes:

Arthur Young & Company is pleased to present our Final Report on the Consolidated Cashiering Conceptual Design. The report includes a conceptual design and an implementation plan to support the state's analysis of the consolidation of cashiering operations at the Franchise Tax Board, Employment Development Department and the Board of Equalization.

We would like to express our appreciation to your staff and to the staff of the respective agencies included in the study for their assistance, constructive criticism and cooperation throughout the development of the conceptual design. Without their support and timely responses, the study would have been substantially more difficult.

We appreciate the opportunity again to be of service to the Office of the Auditor General. Should you have any questions or comments concerning this report, please contact Joe Hill or Margaret Carrera at (916) 443-6756. We would be pleased to respond to your inquiries and to provide additional assistance, if required, to support the results of our study.

Very truly yours,

ARTHUR YOUNG & COMPANY

Arthur Young & Company

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I. EXECUTIVE SUMMARY



I.
EXECUTIVE SUMMARY

The Office of the Auditor General requested Arthur Young & Company to provide professional services under our existing financial, performance and EDP audit services contract. We were asked to develop a conceptual design of a consolidated cashiering function for the Franchise Tax Board, Employment Development Department and the Board of Equalization. This report presents our conceptual design and provides recommendations regarding the implementation of a consolidated cashiering center, if the State decides to move in this direction.

BACKGROUND

The Commission on California State Government Organization and Economy reviewed California's revenue and tax collection activities and made a number of recommendations including exploration of the potential for consolidation. Subsequently, the Legislature directed the Office of the Auditor General to study consolidation of the cashiering function. The Auditor General assigned teams to the three agencies, and these audit teams collected data on our behalf. We then developed a conceptual design and implementation plan which will be used by the State in evaluating whether to actually approve a consolidated cashiering operation or not.

Cashiering operations within the three agencies, the Internal Revenue Service and the Office of the Comptroller in the State of Texas were reviewed. Conclusions resulting from these visits include:

- No inherent differences exist among the three agencies that would preclude consolidation
- Texas has successfully operated a consolidated cashiering center for more than ten years
- Standardization of forms, envelopes and turnaround documents in the agencies can lead to opportunities to improve operations through technology.

CONCEPTUAL DESIGN

The first step in our analysis was to define the function of cashiering. There are four basic functions that must be performed in a cashiering operation in order to receive, process and deposit remittances. Those functions are:

- Mail operations
- Extraction/preparation
- Encoding
- Banking.

The functions were defined and workflows were designed to support a consolidated cashiering function. In addition, a number of other components of consolidated cashiering operation were included in the conceptual design. The components included:

- **Organization** - The reporting relationships, classification levels and structure of the organization is provided in the conceptual design
- **Staffing** - The number of people that would be required to staff the consolidated center was a important part of the conceptual design. Staffing requirements, based on statistical analysis and basic staffing and workload concepts, economies of scale, workload smoothing and other measures of expected productivity changes were determined
- **Equipment** - While some cashiering operations are more technologically advanced than the three agencies in this study, we concluded during analysis that it is infeasible to attempt to consolidate cashiering and introduce new technology concurrently. The focus of the equipment analysis was on capacity planning. The equipment identified will satisfy processing requirements so that work can be completed during one shift a majority of the time
- **Float** - The interest lost by the state when monies are received but not processed in time to be deposited is float. The conceptual design attempted, to the extent possible, to improve or at least neutralize the effect of consolidation on float.

IMPLEMENTATION PLAN

The implementation plan for consolidation includes the following aspects:

- The consolidated cashiering center should be placed under the organizational umbrella of the Franchise Tax Board
- The consolidated cashiering center should be located co-resident with the FTB and be placed in a facility designed specifically for cashiering
- The implementation should occur in phases with the Board of Equalization's cashiering operations merging with Franchise Tax Board first. The Employment Development Department's operations would be merged in a subsequent phase several months later.
- Once the three groups are physically, operationally and organizationally merged, the state should evaluate the success of the consolidation and analyze issues not addressed in the scope of the legislature's charge to the Auditor General
- The post-consolidation review should include an analysis of the standardization of forms, envelopes, and returns to facilitate processing and provide opportunities to take advantage of technology.

CONCLUSION

The lack of standardization in procedures, forms, processes and returns precludes immediate savings through consolidation of the agencies' cashiering operations. Savings should be realized through a multi-step process that includes:

- Consolidation of cashiering operations including standardization of processes and procedures
- Standardization of forms, envelopes and returns
- Review and implementation of appropriate technology.

II. INTRODUCTION



II.
INTRODUCTION

Arthur Young & Company is under contract to the Office of the Auditor General (OAG) to provide financial, performance and EDP audit services. Under this contract, the Auditor General requested a Task Order Proposal on March 16, 1987 to have our firm provide professional services during a study of the state's cashiering operations. We were asked to develop a conceptual design of a consolidated cashiering function for three major state agencies. The design would be used to estimate costs and savings associated with a consolidated facility.

This report contains the findings of our review. This introductory section briefly describes our study objectives, scope, and approach. Subsequent sections provide details concerning:

- Current Operations
- Conceptual Design of Consolidated Operations
- Implementation Plan.

A. OBJECTIVES AND SCOPE

The Commission on California State Government Organization and Economy, also known as the *Little Hoover Commission*, reviewed California's revenue and tax collection activities and prepared a report for the Governor and the Legislature. The April 1986 report contained many recommendations regarding tax collection and cash management activities, including a discussion of the potential for consolidating the state's tax and revenue collection activities. Subsequent to the Commission's study, the Legislature directed the Office of the Auditor General to study consolidation of one of the tax and revenue collection activities. The Auditor General's specific charge was to determine the cost effectiveness of consolidating cashiering operations. The three agencies included in the scope of this study were:

- Franchise Tax Board (FTB)
- Employment Development Department (EDD)
- Board of Equalization (BOE).

The primary objective of our assistance to the Auditor General was to develop a conceptual design of the consolidated cashiering operation and to prepare an implementation plan for consolidation. The conceptual design would be used as a model to define the costs and benefits of a consolidated operation.

B. STUDY APPROACH

The Task Order Proposal submitted to the Auditor General included a series of tasks to support accomplishment of the objectives. This subsection discusses our approach to the consolidated cashiering study conducted for the Auditor General.

Collected and Reviewed Background Data

The objective of this task was to develop an understanding of the agencies' cashiering operations and to formulate plans to obtain additional information as required. The Auditor General had review teams in place at the agencies which collected much of the data. We reviewed the Auditor General's work-to-date and provided data collection guidelines and requirements for accomplishment of our tasks. A walkthrough of cashiering operations in the three agencies also occurred during this task. The Auditor General and Arthur Young teams then reviewed cashiering operations at the Internal Revenue Service Center in Fresno. We also reviewed the operations of the Office of the Comptroller, State of Texas. This state was chosen because it is similar to California in size and complexity and it operates a consolidated cashiering operation.

Assessed Common and Unique Aspects of the Three Operations

The objectives of this activity were to develop a profile of the three cashiering operations' and to identify similarities and differences. Specifically, we identified common and unique aspects as related to:

- Transaction types, volumes and processing methods
- Accounting/recordkeeping requirements
- Seasonal variations
- Personnel allocations and scheduling
- Equipment
- Costs.

These findings are presented in the following sections of this report and were used extensively during formulation of the conceptual design.

Researched Equipment Improvements and Impacts

In this task we identified opportunities for the utilization of more effective and efficient cashiering equipment. All equipment currently used by the three agencies was reviewed and the capacity, throughput, and costs were assessed. We then contacted cashiering equipment vendors to discuss availability and features of other equipment which might support a consolidated cashiering system. We assessed the volumes of returns during peak and low processing periods and determined the most cost effective equipment alternatives. These findings are discussed in the Conceptual Design section of this report.

Prepared and Reviewed Conceptual Plan for Consolidated Operations

The objective of this task was to prepare a conceptual design of a consolidated cashiering operation. The design includes summary descriptions of the components of the consolidated operation, including:

- Workflows
- Organization
- Staffing
- Equipment
- Float.

The conceptual plan was presented to the Auditor General review team. Their comments and suggestions then were incorporated into the design before it was reviewed with representatives of the other state agencies.

Refined and Revised Conceptual Plan and Prepared Implementation Plan and Costs

The conceptual design was reviewed with representatives from the three agencies in a series of meetings conducted by the Auditor General and Arthur Young staff. The comments and suggestions made during these review sessions were incorporated into the conceptual design and the implementation plan.

The implementation plan was formulated during this task and estimated one-time implementation costs were developed. The conceptual design and implementation plan are presented in separate sections of this report.

Prepared and Reviewed Draft and Final Reports

All findings and recommendations were documented in a draft report. A review session was held with Auditor General and Arthur Young staff to discuss the Auditor General's comments and suggestions. A final report then was prepared and delivered to the Office of the Auditor General.

III. CURRENT OPERATIONS



III. CURRENT OPERATIONS

This section of the report presents an overview of the current cashiering operations at the three agencies and a summary of the cashiering operations of the Texas Office of the Comptroller. The overview of the California agencies is limited to those operational aspects that lend themselves to an analysis of consolidation. No attempt has been made to review or assess individual agency's operations, procedures or workflows.

The three cashiering groups (*Franchise Tax Board, Employment Development Department and Board of Equalization*) have the same basic objectives which are to process remittances that accompany tax returns and other tax documents, and to deposit the monies received in a timely and cost effective manner. The individual agencies have taken three different general approaches to the accomplishment of these objectives. In some instances the agencies have adopted similar methods of operation or organization, while in other cases the agencies use three different methods.

Exhibits III-1 and III-2 on the following pages depict common and unique aspects of the three agencies and Texas, and profile the current equipment used for remittance processing and available for consolidation. Exhibit III-1 describes certain aspects which are common or unique and indicates which aspects apply by agency, including the State of Texas. The first aspect, for example, "*All clean returns are processed in a common pipeline*", is true for EDD and BOE. Franchise Tax processes Personal Income Tax returns separately from Bank and Corporation returns. While some aspects are shared by FTB and EDD, the greatest area of commonality is between EDD and BOE. Later in this section of the report, the individual agencies' current operations are discussed in more detail.

**CONSOLIDATED CASHIERING STUDY
COMMON AND UNIQUE ASPECTS**

DESCRIPTION OF ASPECT	FTB	EDD	BOE	TEXAS
All clean returns are processed in common pipeline.		X	X	X
Majority of returns received in standard envelopes.		X	X	X
State taxes are the only taxes collected.	X			
Second shift is scheduled.	Peak	Always	Never	Always
Temporary personnel are used.	X	X		X
Personnel are borrowed from other units to work during peaks		X	X	
Peak processing times are of short duration (one to two weeks).		X	X	
Peak processing times are of a longer duration (four or more weeks).	X			
Low processing periods are of longer duration (two or more weeks).		X	X	

**CONSOLIDATED CASHIERING STUDY —
EQUIPMENT AVAILABLE FOR REMITTANCE PROCESSING BY AGENCY**

EQUIPMENT TYPE	# OF UNITS	UNIT CAPACITY	AGENCY		
			EDD	FTB	BOE
Oamation opener/counter	1	20,000/hr	X		
Oamation letter openers	4	1,020/hr		X	
Docutronix opener/counter	1	15,000/hr		X	
Tricutter	1	6,000/hr			X
Document detector	1	15,000+/hr	X		
Docutronix document detector w/ opener	2	18,000/hr		X	
Vacuum dust collector	1	n/a	X		
Opex extraction desks	15	700+/hr	9		6
NCR encoding machine multi-pocket	3	3,500/hr (sorter) 1,200/hr (encoder)	X		
Burroughs encoding machine multi-pocket with microfilmer	6	5,000/hr (sorter) 1,200/hr (encoder)	X		
NCR multipocket encoder	16	1,200/hr		8	8
NCR single-pocket encoder	8	1,200/hr		X	
Tallyprinter	4	n/a	X		
Perforator	4	n/a		2	2
Check endorser	3	n/a			X
Endorser/tallyprinter	1	n/a			X
Check jogger	4	n/a		2	2
Lundy reader/sorter	1	n/a	X		
Trace II-reader/sorter	1	39,000/hr	X		
Adding machines/calculators	113	n/a	26	46	41
Computer terminals	39	n/a	23	15	1

Exhibit III-2 profiles the current cashiering equipment available for remittance processing which is used in the California agencies. The equipment is presented in six categories by type, as follows:

- Envelope openers
- Document detectors or candlers
- Automated extraction desks
- Encoding machines
- Other equipment types
- Reader/sorters
- Calculators/CRTs.

The number of units that exist for each type of equipment is shown in the next column. The production capacity per unit, if available, is shown next. The final columns indicate which agencies have the equipment. If more than one agency has the same equipment, the number of units at each agency is shown. The following sections of the report provide a narrative profile of current operations in the following order:

- Franchise Tax Board
- Employment Development Department
- Board of Equalization
- Texas Office of the Comptroller.

The profile of current California operations is presented for each agency as follows:

- Volumes
- Mail characteristics
- Personnel
- Equipment.

A. FRANCHISE TAX BOARD (FTB)**Volumes**

The FTB receives the largest volume of remittances of the three agencies involved. More than 8.4 million returns and documents containing remittances were processed in 1986. Twenty-nine percent of the remittance volume was received during a three-week period in April. The Franchise Tax Board has several other lesser processing peaks during the year which coincide with due dates for estimated tax payments.

Six tax document types comprise the majority of the processing volume at FTB:

- Personal Income Tax (PIT) Returns
- Personal Income Tax (PIT) Estimates
- Personal Income Tax (PIT) Documents
- Bank and Corporation (B&C) Returns
- Bank and Corporation (B&C) Estimates
- Bank and Corporation (B&C) Documents.

Mail Characteristics

Returns, estimates and documents arrive at the FTB in taxpayer provided envelopes. The Franchise Tax Board does not supply envelopes for taxpayer use. Franchise Tax, like the other agencies, uses a variety of post office boxes and zip codes to "pre-sort" returns and documents. For example, Personal Income Tax returns with a remittance are sent to a different post office box than returns without a remittance.

Personnel

Franchise Tax maintains a permanent staff to process returns and documents on a year-round basis. During peak periods permanent intermittent and temporary help supplement the full-time staff. During the workload peaks in April more than 700 people perform cashiering functions on two work shifts. Beginning in May, Franchise Tax Board's cashiering operation returns to one work shift. Franchise Tax Board has a unique personnel classification called Tax Program Assistant (TPA).

Equipment

The Franchise Tax Board must use letter openers and slitters on all incoming mail. Eighteen high-speed openers are available for use. Once the contents of the envelopes are manually removed in the extraction area, the envelopes are put through a detector or candler to ensure that nothing remains in the envelope. Returns and documents are processed manually until the check and return amounts are added on the Tandem computers. FTB uses NCR encoders to encode the remittance amount onto the check. Check joggers are used to align the checks so a high speed reader/sorter can be used to help prepare the deposit. The reader/sorter reads the check amount and bank number. It then sorts the checks to the proper bank and produces a total deposit amount for each bank.

B. EMPLOYMENT DEVELOPMENT DEPARTMENT**Volumes**

EDD receives the second highest volume of remittances of the three agencies. More than 6.6 million returns were processed during 1986. The Employment Development Department collects taxes for several state and federal programs. More than 90 percent of EDD's cashiering activity is represented by two types of returns. The first is the Deposit of State Personal Income Tax Withheld and Disability Insurance Contributions (DE88) return and the second is the Quarterly Contribution Return and Report of Wages under the Unemployment Insurance Code (DE3). The DE88 is filed as many as eight times a month or as seldom as once during a quarter depending on the amount of tax an employer has to report. All employers must file a DE3 each quarter which summarizes earnings for individual employees and reports Personal Income Tax withheld, Unemployment Insurance and State Disability Insurance.

EDD processing peaks follow the due dates of the quarterly returns. Peak processing periods occur as follows:

<u>Last week of:</u>	<u>First week of:</u>
January	February
April	May
July	August
October	November

Mail Characteristics

The Department provides envelopes to the taxpayers for the DE3 returns. The degree of taxpayer compliance in use of the envelopes is very high. These color-coded envelopes are used by EDD to identify potentially large remittances based on prior experience with the taxpayers. In addition, there is one small tax program for which envelopes are provided. The balance of the mail is received in taxpayer supplied envelopes. A majority of DE88s are received in envelopes of such similar size and weight that the DE88s are processed as if the envelopes were state-supplied.

EDD uses different post office boxes and zip codes to pre-sort mail. EDD has the Post Office intercept mail coming from five cities (Los Angeles, San Diego, San Francisco, Chicago, and New York) and forward it to EDD using Express Mail Service. This process is used so EDD can receive the remittances sooner than they would if the mail was delivered as usual. The cost effectiveness of this approach is being evaluated currently.

Personnel

The Employment Development Department maintains a permanent staff on two work shifts throughout the year. The day shift is supplemented by a smaller "graveyard" shift that performs essentially the same functions. The cashiering unit at EDD uses intermittent and temporary help year round and during peak processing periods. A small number of hours are borrowed for processing remittances from other units in EDD during peaks. Standard state personnel classifications are used in the cashiering operation at EDD.

Equipment

EDD separates mail received in state-supplied (DE3) envelopes from that received in other envelopes. The DE3 mail is opened by hand, DE88 mail is forwarded to an automated extraction desk and other mail is opened with electric slitters. The automated extraction desk performs three functions: it opens the envelope, sends the envelope to the operator who removes the contents, and then candles the envelope. Non-standard envelopes that are opened with a slitter are candled using a document detector. EDD uses Burroughs encoders for daily processing and supplements these with NCR encoders during peak periods. The Burroughs encoders have a microfilm capability so the checks are filmed, encoded with the remittance amount and endorsed by one piece of equipment. The Burroughs encoders also sort the checks by bank and produce totals.

C. BOARD OF EQUALIZATION

Volumes

The Board of Equalization processes the lowest volume of remittances (17.4 percent of the combined total) but deposits the largest amount of money. Approximately 93 percent of BOE's volume is represented by the Sales and Use Tax program. The Board collects taxes for more than 12 programs, some of which represent only a handful of taxpayers. The Board of Equalization's peak periods are the same as EDD's. While there are many taxpayers who remit monthly, most taxpayers report quarterly or annually. The Board's peaks occur on the following basis:

<u>Last week of:</u>	<u>First week of:</u>
January	February
April	May
July	August
October	November

Mail Characteristics

The Board provides envelopes to taxpayers and the majority of mail is received in the Board-supplied envelopes. Post office boxes and zip codes are used by the Board of Equalization to pre-sort and prioritize the mail.

Personnel

The Board maintains a year-round staff to perform the cashiering function. A pool of permanent intermittents work during peak periods. BOE relies on overtime and on borrowed personnel from other units in the Board to work during peak periods. Borrowed personnel work both on an overtime basis, before or after the normal shift, and during a normal work day at a regular pay rate. The pool of borrowed personnel is relatively

stable with the same people working the peak periods. The Board of Equalization relies on this overtime approach rather than establishing a second shift. Standard state personnel classifications are used in the mailroom and cashiering unit.

Equipment

The Board generally sends all mail received in state-supplied envelopes (standard mail) to the automated extraction desks in cashiering. However, during peaks, tricutting machines are used on standard envelopes to speed the process. The tricutters slit the envelopes on three sides. Mail received in taxpayer-supplied envelopes (non-standard) is generally opened on the tricutters. BOE uses automated extraction desks that open the envelope, pass it by an operator for contents removal, and then automatically candle the envelope. A separate machine is used to restrictively endorse the checks. The Board uses NCR encoders to encode the check amount and sort by bank.

D. TEXAS OFFICE OF THE COMPTROLLER

The State of Texas has operated a consolidated cashiering center for more than ten years. A majority of taxes collected by the State are handled in this center. Texas is similar to California in number of residents and collects taxes on many of the same programs. The primary exception to the similarities between the states is that Texas does not have a personal income tax. A visit was made to the cashiering center in Austin, Texas. The following summarizes our understanding of the consolidated cashiering operation in Texas:

- Approximately 23 tax programs are handled in the consolidated center
- Each tax has its own color envelope
- Ninety percent of the taxpayers use the return envelopes sent out by the state
- The Comptroller's office has two Docutronix 100 mail sorters. These mail sorters read through the envelopes and read bars on the back of the tax forms. The equipment also sorts by type of tax
- The sorters cut the envelopes on the bottom
- The sorter can be set to a certain density so that the sorter can determine if there is a check in the envelope and sort on that basis
- On the long forms it can also read the bar inside and they use an optic code square on the envelope. The optic codes are used primarily to identify larger taxpayers and sort on that basis
- The Comptroller's office has had these machines for about ten years and it is our understanding that they are custom made by a Florida firm
- The short form envelopes are opened by a Docutronix machine. This machine lays the envelope open and empties it for the operator
- The short form next goes to the optic machine for encoding and endorsement. The checks and documents come out of this machine in batches. Additionally, this machine gives idle time and productive time. This machine is referred to as "Remit Pro 9000 by Scan Optics"

- The optic machine operates in conjunction with an IBM PC which accumulates appropriate data for ultimate posting to taxpayers' accounts, etc.
- Documents flowing into the Comptroller's office have the taxpayer ID, name, address, etc. pre-printed on the forms and this machine is able to read this data as it goes through the equipment. After passing through this machine, checks prepared for depositing can go to the bank
- The documents next pass to another area where the amount written on the documents is optically scanned and this is compared to the total of checks in each batch. If checks and the documents do not match, then the item is researched and corrected as appropriate
- Long form documents are not processed on the 9000 machine. However, due to the standardization of the forms, processing, although manual, appears much simpler than seen in California
- One of the larger taxes which does not flow directly into the Comptroller's office is motor vehicle tax which is collected by the various Texas counties. The State has established a system whereby the County Treasurers deposit this money in a local bank account and then the State sweeps these accounts into a central state account each day. The accounting data then flows into the Comptroller's office for processing at a later date. Also in the remittance processing area, at the end of the day all paper is gone and documents, etc. are on microfilm and that is what is used for future research, etc.
- The Comptroller's office has a central forms group. This group reviews all forms and performs all testing for forms prior to implementation. The Comptroller's office believes that this forms group is one of the reasons they have been so successful over the last few years in the remittance processing area.
- The Comptroller's office remittance processing group starts processing at 11:00 p.m., with a new crew coming in at 7:00 a.m. They pick up mail all during the night and into the morning.
- They have an exclusive contract with a temporary employment agency in Austin which works very well.

IV. CONCEPTUAL DESIGN



IV. CONCEPTUAL DESIGN

This section of the report presents the conceptual design of the consolidated cashing function for the Franchise Tax Board, Employment Development Department and Board of Equalization. The design is based on our knowledge of the operations, and the information provided to us by the Auditor General in terms of work volumes, staff levels, current equipment configurations and types of returns processed. This section is organized as follows:

- *Cashiering Functions*
- *Workflow*
- *Organization*
- *Staffing Analysis*
- *Equipment*
- *Float.*

The conceptual design developed for the consolidated facility is based upon several assumptions including:

- Current volumes processed by the three operations are approximately eighteen million returns annually.
- The operation will experience a moderate annual growth rate of less than five to six percent for each of the next three years.
- The consolidated facility would be staffed with a combination of permanent full-time, permanent intermittent and temporary employees.
- Work flow improvements which could be derived without consolidation are excluded from the scope of this analysis.
- The location of the facility was not considered, i.e., the cost, or benefits, of locating the operations in Los Angeles versus Sacramento were not considered.

- Disruption to downstream processing in the agencies must be minimized.
- Consolidation of cashiering should not be apparent or disruptive to the taxpayers.
- Detailed operational processes such as scheduling and use of staff would not be defined in the conceptual design.
- Tax funds must be accounted for separately so batches are comprised of tax returns of the same type.

A. CASHIERING FUNCTIONS

There are four basic functions which must be performed in order to meet the goal of cashiering. These functions must be performed regardless of who does the work, which technology is applied, or where the operations are conducted. The cashiering functions are performed in the following sequence:

- Mail
- Extraction/Preparation
- Encoding
- Banking.

All of these functions are being performed today in the three agencies. The functions are called by different names in the agencies, but the basic functions are the same. Each function has a specific group of tasks and activities associated with it. Under consolidation the process of handling the returns from mail through banking are standardized. Tax returns received in the consolidated center are all processed in the same manner. There are no resources dedicated to a single tax program. A description of the functions and assumptions regarding operations in the conceptual consolidated cashiering operation comprise the balance of this subsection.

Mail Function

Definition - This function is comprised of the following activities:

- Mail receipt activities
- High level sort to supplement the sort done in the post office
- Misdirected mail is redirected to correct recipient
- Non-standard mail is slit or opened.

Assumptions for Consolidated Center

- The consolidated center will not serve as a general mailroom for the agencies. Only mail containing remittances is directed to the consolidated center through the use of post office boxes and zip codes. Agency and other mail is handled separately by the agency's mailroom.
- The agency which is co-resident with the consolidated center will share mailroom facilities with the consolidated cashing function
- Post office boxes, zip codes, colored envelopes and other pre-sort techniques currently used will be maintained
- Remittance mail can be classified into three categories:
 - Standard mail - This is mail received in either state-supplied envelopes or in envelopes of a similar size, that could be opened at an automated station.
 - Non-standard mail - This mail is received in envelopes of varying sizes, weights and dimensions. It includes flats and very bulky mail. This mail is opened by a slitting machine.
 - Other standard mail - This mail is received in state-supplied envelopes but it must be manually processed (e.g., zip-back envelopes).
- Remittance mail can be received from sources other than the post office, including:
 - Misdirected mail
 - Taxpayer uses wrong P.O. Box or zip code
 - Taxpayer sends or takes payment to the district office or other agency location.
- Mail will be picked from and delivered by the post office to the consolidated center.

Extraction/Preparation Function

Definition - This function is comprised of the following activities:

- Mail is received from the mail function in priority order by zip code or P.O. Box

- The contents of the envelope are removed
- Initial visual screens are performed to sort out:
 - Non-remits (zero tax liability)
 - Items that require special or exception processing
- Items that pass the screens are sorted to slots by return type
- Items that do not pass the initial screens are processed by an exception processing group and are recycled into the system
- Batches are formed from accumulated returns from the same tax program
- A unique batch number is assigned
- The amounts of the checks and the returns are totaled and balanced
- The checks and returns are separated but maintained in batches and in batch order
- The checks, along with the batch tape, are sent to the Encoding function
- The returns, along with a batch tape, are sent to the Encoding function.

Assumptions for Consolidated Center

- Mail is processed in the same relative priority order that it is in separate agencies. In addition to "big money" remittances, the highest priority items are:
 - **EDD**
Certified mail
Red-end DE3
DE88
 - **FTB**
Bank and Corporation returns
 - **BOE**
Tax program codes: SZ, SR, SY
- Each tray or partial tray will contain similar mail which has been pre-sorted by zip code or post office box

- Most permanent employee processing mail should be able to, when fully cross-trained, open all remittance mail
- Both automated extraction desks (for standard mail) and non-automated extraction desks (for non-standard mail) are used
- The visual screens that are used today in individual agencies will be used in a consolidated center
- Cross-training on similar tax programs will be a priority
- The exception processing group is made up of experienced staff
- The majority of items which require the least amount of processing time will remain in the main processing pipeline
- The integrity of the batch can be maintained throughout processing.

Encoding Function

Definition - This function is comprised of the following activities:

- Batch number and batch total information is entered into the encoder
- Individual checks are fed into the encoder and the amount of the check is entered
- The encoder "encodes" the amount onto the check with magnetic ink
- The check is restrictively endorsed by the machine
- An identification number (batch and sequence number) is stamped onto the check by the machine
- A total of all checks processed is generated by the encoder
- The batch total and the encoder total are balanced
- Out-of-balance items are processed in an exception mode
- The checks and batch tape are sent to the banking function
- The returns are encoded with the same identification number (batch and optional sequence number) assigned to the check, additionally the return can be encoded with the processing date

- A sample of the EDD returns is taken to establish fund allocation based on the day's deposit which is reported to the Treasurer
- The returns are sent to the agency for further processing.

Assumptions for Consolidated Center

- Encoding of checks have a higher priority than the encoding of returns
- Adequate controls can be instituted to minimize the potential for batch order to be changed
- Batch integrity can be maintained throughout the process
- No additional programming is required by the individual agencies to accommodate the identification number
- A person operating an encoding machine may encode a batch of checks accompanying PIT returns (FTB) and then encode batches of Sales and Use Tax return remittances (BOE) and DE88s (EDD)
- Returns will be encoded with the identification number in the same way it is today (i.e., perforators, stamps)
- Returns will be available for the agencys' use on the day of deposit.

Banking Functions

Definition - This function is comprised of the following activities:

- Batches of checks are put into a reader/sorter
- The check amount and the bank number are read automatically
- The checks are microfilmed (optional)
- The checks are sorted by bank number into pockets
- The checks are totaled by batch and by bank pocket
- The batches and bank pockets are balanced
- The deposit is prepared
- Deposit data is available to the agencies on the day of deposit

- Exceptions are processed and recycled into the processing stream.

Assumptions for Consolidated Center

- The current reader/sorter can be reprogrammed to generate MIS reports and deposit information for all agencies
- Deposit data will be sent to the agencies on the same day it is received
- The existing reader/sorter can be retrofitted with a microfilm capability. This feature is optional in the conceptual design

B. WORKFLOW

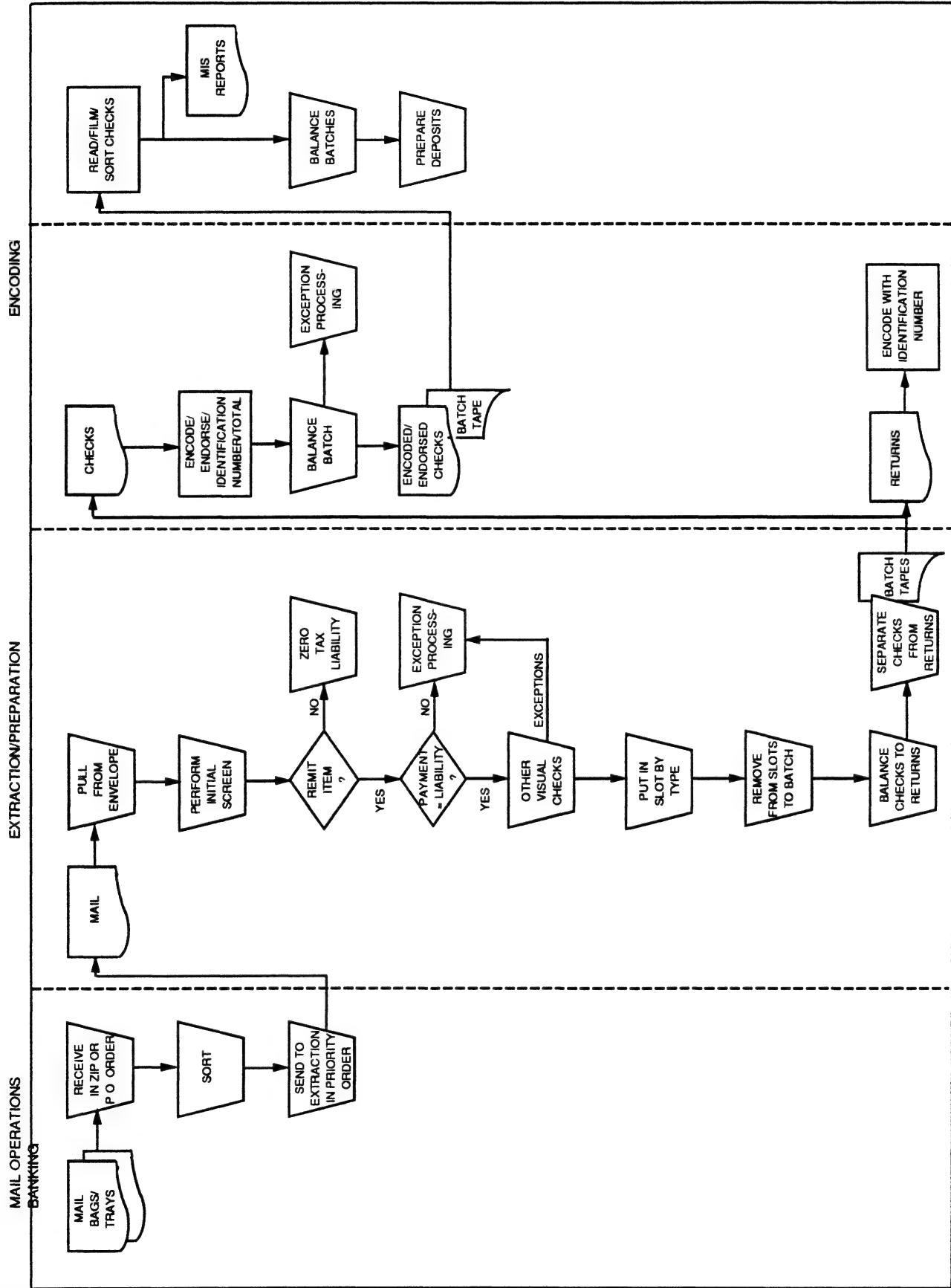
This subsection of the report discusses the conceptual design of the workflow for the consolidated cashiering operations. The workflows are presented using the four cashiering functions defined in the previous subsection. The workflows are shown in a series of exhibits as follows:

Conceptual Cashiering	Exhibit IV-1
Mail Operations	Exhibit IV-2
Extraction/Preparation	Exhibit IV-3
Encoding	Exhibit IV-4
Banking	Exhibit IV-5

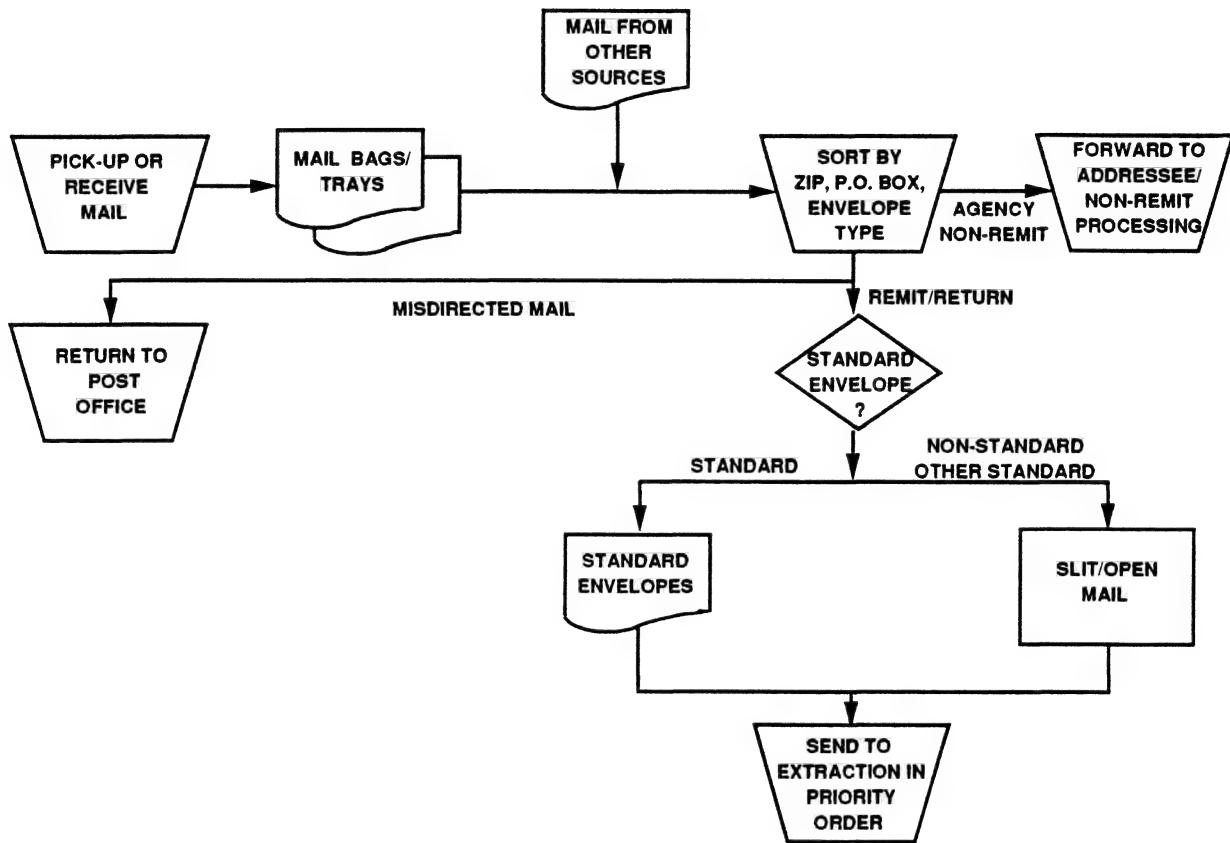
The first exhibit (Exhibit IV-1) shows an overview of the workflow through all of the cashiering functions. It is anticipated that the functions will be carried out by four separate operational groups within the consolidated cashiering center. This exhibit depicts the overall flow of mail through the facility from receipt to deposit of remittances.

The remaining exhibits present individual functional workflows. Exhibits IV-2 through IV-5 on the following pages present the functional workflow in greater detail than the overview.

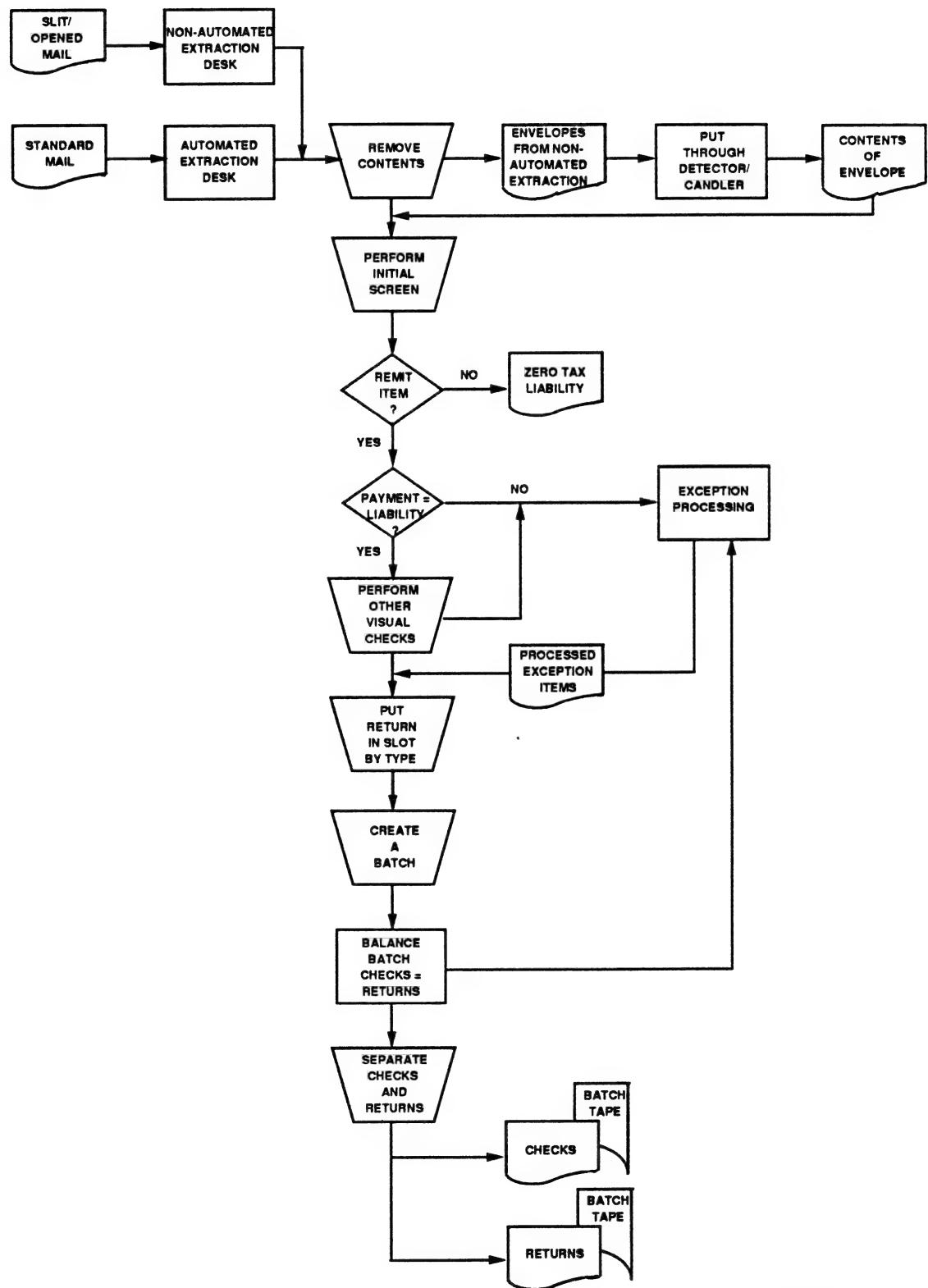
Consolidated Cashiering Conceptual Design Workflow



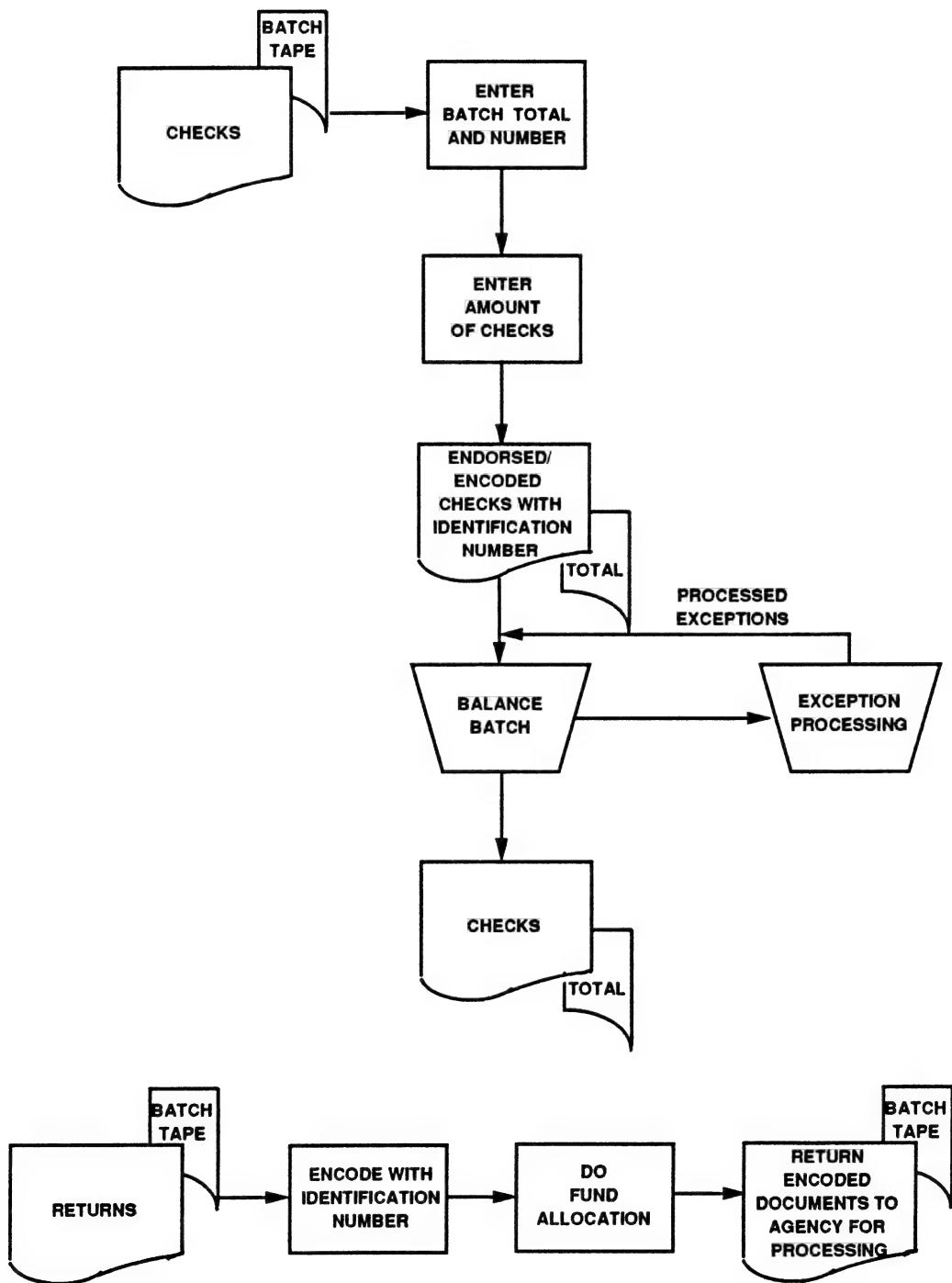
Consolidated Cashiering Conceptual Design Workflow Mail Operations



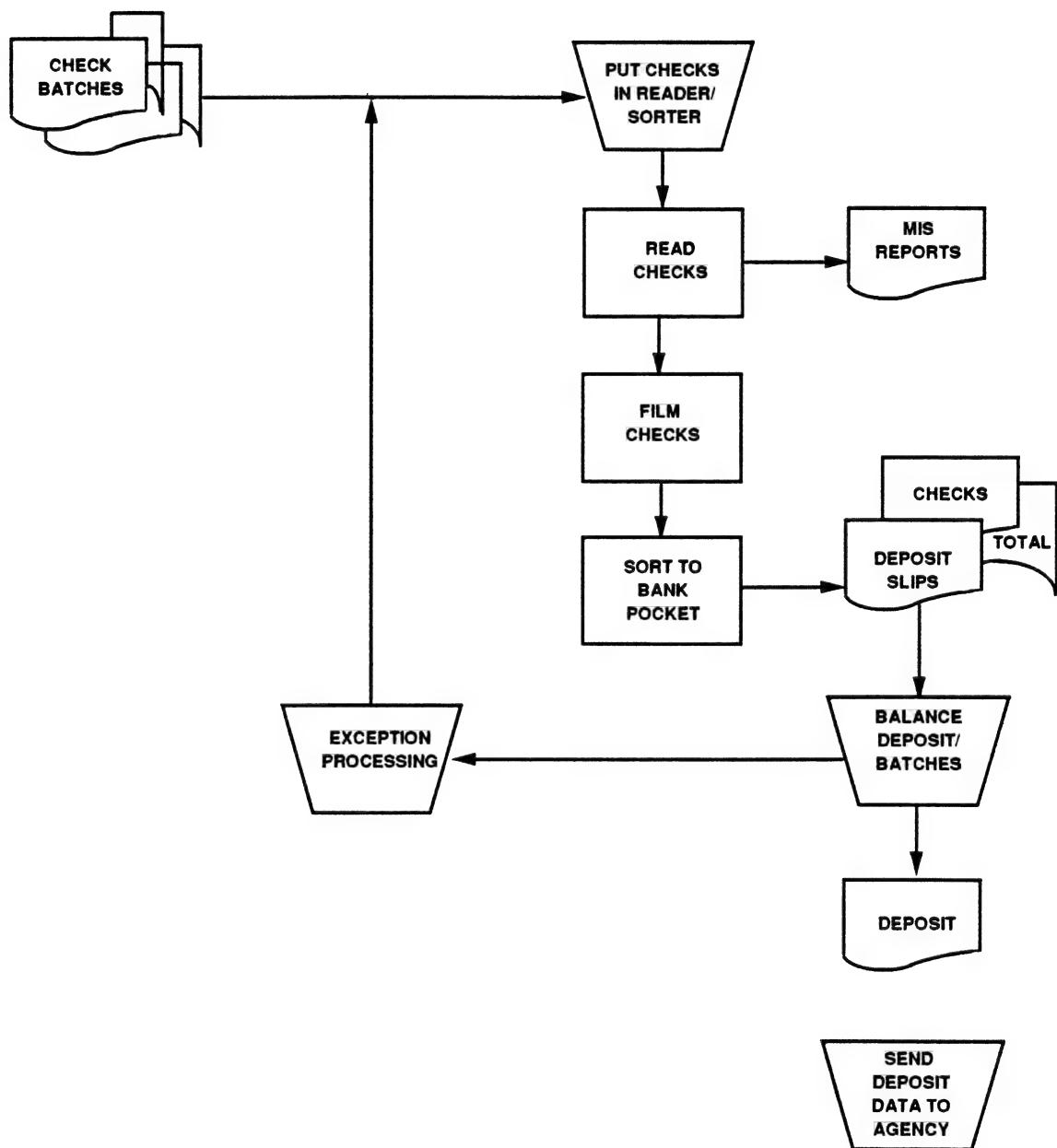
Consolidated Cashiering Conceptual Design Workflow Extraction/Preparation



Consolidated Cashiering Conceptual Design Workflow Encoding



Consolidated Cashiering Conceptual Design Workflow Banking



Mail operations workflow in Exhibit IV-2 shows that mail is received from two sources: the Post Office and other sources such as district offices and walk-ins. The mail operation will perform an additional sort to accomplish three goals:

- To remove non-cashiering mail from the processing stream
- To sort the mail into standard and non-standard mail
- To maintain the priority sorting provided by zip codes, post office boxes and other pre-sorts.

Exhibit IV-3, Extraction/Preparation, depicts the flow of mail through this two-step process. The first step involves extracting the return and remittance from the envelope. The mail is screened at this time to ensure that the greatest number of items flow through the fastest processing stream. Items that require more than minimal time or effort to process are removed from the high volume stream and processed by more experienced staff in exception processing.

The second step in the Extraction/Preparation function is the creation of a batch which is comprised of similar return types. Batches are created concurrently with the extraction process as soon as sufficient items are accumulated. Batch numbers are assigned and then all of the returns and all of the checks are added and the batch is balanced. Once the items are in balance, the checks and returns are separated prior to being sent to Encoding. Batch creation activities are performed by a different group than the staff that extracts the contents from the envelopes.

The Encoding function is shown in Exhibit IV-4. Batches of checks are processed on encoders where three items of information are printed or encoded on the checks:

- A restrictive endorsement is printed on the check in preparation for the Banking function
- The amount of the check is encoded with magnetic ink as a result of the operator keying in the figure

- An identification number is printed on the check. The identification number consists of the batch number and the sequence number of the item in the batch.

A total of the checks processed is produced by the encoding machine. The encoding total is balanced to the batch total created in Extraction/Preparation.

The returns are also encoded with the identification number consisting of the batch number and an optional sequence number during the Encoding process. EDD returns must be sampled to do an estimate of fund allocation which is reported to the State Treasurer. The returns are sampled after being encoded. The returns are sent on a priority basis to the agencies for further processing.

Exhibit IV-5 shows the Banking function. This is the final step in the cashiering process. Batches of checks are put into a reader/sorter. The following steps are performed by the reader/sorter:

- The bank number is read
- The check amount is read
- The checks are microfilmed (optional)
- The checks are added by bank and by batch
- The checks are sorted by bank number to individual pockets.

The totals produced by the reader/sorter are compared to the batch totals. The batch and deposit totals are balanced and the deposits are prepared for courier pickup. Deposit information is sent to the agencies for processing on the same day as the deposit is made. Deposit information includes:

- Deposit total
- Deposit total by batch
- Batch numbers.

C. ORGANIZATION

The conceptual design of the consolidated cashiering operation is based on the definition of the four cashiering functions discussed earlier in this section of the report. These functional definitions also serve as the basis for the organization envisioned in the conceptual design. The four cashiering functions are comprised of a distinct set of activities that lend themselves to separate organizational units.

Exhibit IV-6, on the next page shows the consolidated cashiering conceptual organization chart. The organization chart has several levels of management and supervision. It also shows two levels of production staff. One of the levels is the permanent (full-time and intermittent) core staff and the other level is temporary staff. The classifications that are shown on the chart are meant to describe classification series, not specific levels within the series. The balance of this subsection discusses the proposed organization.

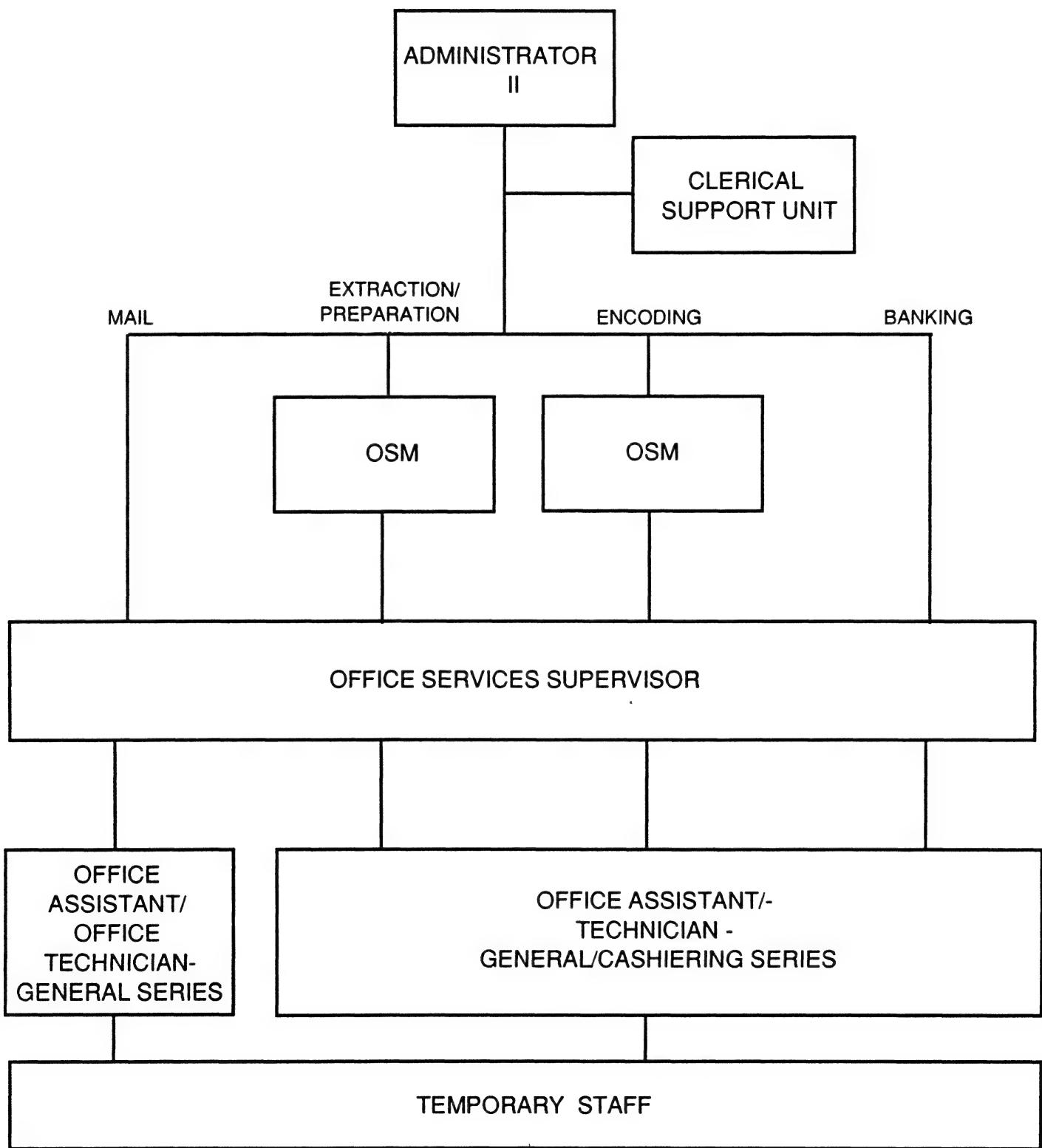
Administration

The consolidated facility would be under the direction of the Administrator II position classification. This position would be directly responsible for the overall consolidated cashiering activities. The position would also have responsibility for coordination and communication with the Franchise Tax Board, Employment Development Department and the Board of Equalization. The Administrator would have four people reporting directly which represents one person from each of the functional areas.

Clerical Support Unit

The clerical support unit will provide general clerical and secretarial support to the consolidated cashiering center. The support duties performed by the clerical pool include timekeeping, reception, updates to manuals, general typing and secretarial activities.

Consolidated Cashiering Conceptual Organization Chart



Management by Function

The Mail function would be led by an Office Services Supervisor. This classification level was used because the number of people reporting to the position is relatively small. In addition the activities performed in the mail function are repetitive and do not require a high skill level. A determination regarding the specific level of supervision (e.g., OSS II or III) was not made.

The Extraction/preparation function would be headed by an Office Services Manager. This functional group has the greatest number of production staff and these positions require the highest level of skill, training and experience of the four functions. Permanent full-time and intermittent supervisors will report to the Office Services Manager.

An Office Services Manager will also lead the Encoding function. The encoding group is the second largest of the four functions and by its size merits the OSM classification level. It is anticipated that both full-time and intermittent Office Services Supervisors will report to this position.

The Banking function, like the mail function, has a relatively small staff. The activities require close supervision and are very time sensitive in that a missed deadline can result in high monetary loss to the State. This function will be led by an Office Services Supervisor. A determination regarding the specific level of this supervisory position (e.g., OSS II or III) was not made.

Supervision

The first line supervisory positions for all four functions will be staffed from the Office Services Supervisor classification series. These supervisory positions are filled by both full-time and intermittent staff.

Permanent Production Staff

The core of permanent production staff would be filled by individuals from the Office Assistant/Office Technician series. Both permanent full-time and permanent intermittent positions are included in this classification series. The classification specifications showed that there are two speciality areas in this series which are General and Cashiering. The mail function is comprised of activities that are described under the General area. Most of the activities that occur in the remaining functional areas fall under the Cashiering area. Some of the activities can only be described under the Cashiering speciality area while other activities can be categorized in the General or the Cashiering areas. The consolidated cashiering center can be staffed by either speciality area.

Temporary Production Staff

Temporary personnel must be hired to supplement the permanent production staff that works year round in the consolidated cashiering center. Processing peaks occur on a regular, predictable basis. Temporary staff are used to process the volumes during the peaks that cannot be handled by the permanent staff. The temporary staff do not participate in the benefit package offered to permanent state employees. The hours temporary personnel can work during a year are limited. Temporary staff can be assigned a variety of standard state personnel classifications so no title is shown on the organization chart, rather a "generic" description of "Temporary Staff" is used.

D. STAFFING ANALYSIS

This subsection presents the results of our analysis of staffing requirements for a consolidated cashiering operation. The subsection is presented in the following order:

- General Approach to Analyzing Staffing Requirements
- Data Constraints and Effects
- Historical Remittance Volumes
- Historical Hours Worked
- Analysis of Economies of Scale
- Staffing Requirements.

General Approach to Analyzing Staffing Requirements

Our analysis of staffing needed for a consolidated cashiering operation focused on the potential for improved productivity achieved through economies of scale and workload leveling. In other words, proposals to consolidate the three currently independent operations inherently assume one or more of the following conditions will occur, thereby increasing productivity and decreasing operating costs:

- Higher volumes of workload can be processed with proportionately smaller increases in hours worked (i.e., economies of scale)
- Variations in peak workload will be smoothed, resulting in a more stable, productive workforce (i.e., again a byproduct of economies of scale)
- Better utilization of equipment will reduce operating costs.

The latter issue -- equipment -- is discussed in the next subsection. Here we deal with only the first two, which are staffing related. Our approach involved assessing the validity of the above two assumptions by analyzing historical volumes of remittances, actual hours worked, and the relationships between volumes and production hours as well as between volumes and productivity per hour.

This analysis did not consider methods improvements which could be implemented by any of the three agencies independent of consolidation. That is, we concentrated only on benefits that might be obtained solely through consolidation.

Data Constraints and Effects

Several data constraints restricted the detail and specificity of our analysis. First, we had to use "monthly hours worked" in our analysis. A preferable method would use either weekly or daily figures, but this would have required extensive compilation of time sheet data, which was not possible due to the time and budget constraints of this study. Also, we only had eight months of data for EDD while we had twelve months of hours worked data for the other agencies (FTB and BOE). The reason for having only eight months of data for EDD (as compared to twelve months for the other agencies) is that this agency implemented a new Tax Accounting System in September and a new time reporting system which resulted in skewed hours during the last four months of the year. To make up for this accounting change, projected hours replaced actual data for the last four months in our EDD staffing analysis.

Another data constraint was that we could only compile reliable data on the volume of remittances deposited each day rather than the volume of items received daily by the agencies. This was due to the way workload data is recorded.

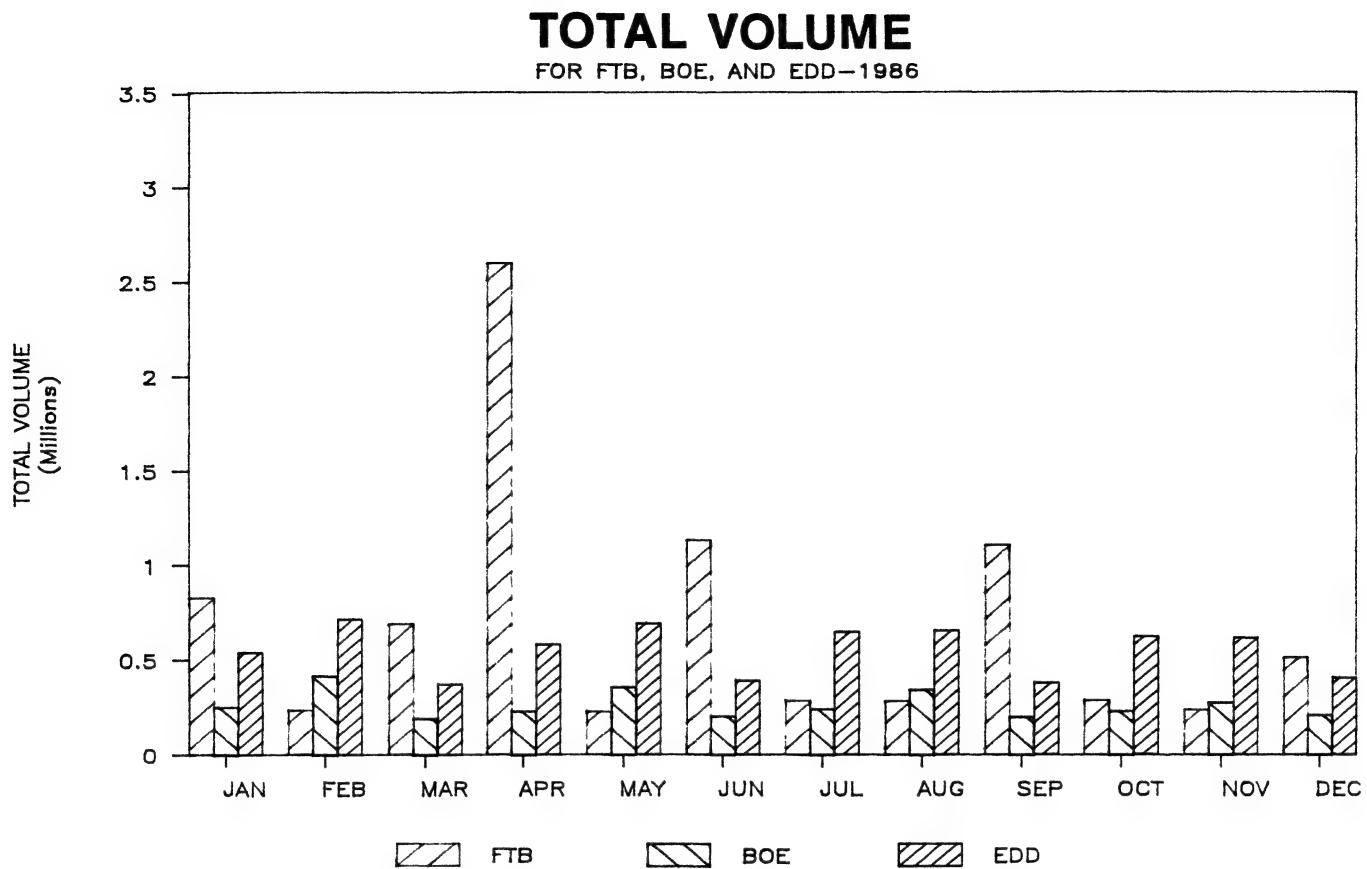
If more detailed and pertinent data on hours worked had been available, the validity of the statistical analyses we performed would be strengthened. In turn, this would have allowed a better estimation of the production levels resulting from a consolidated operation. In addition, the use of remittances deposited rather than the number of items received limited our ability to analyze the extent to which consolidation would lead to a smoothing of workload.

Despite the constraints just described, we believe the data we used is sufficiently reliable and specific for the purposes of this study. We are concerned here with a conceptual level analysis and a general assessment of workload, staffing, and productivity. Given the consistency of the analysis results we obtained, it is very unlikely that more refined data would produce significantly different conclusions.

Historic Remittance Volumes

The graph and the chart on **Exhibit IV-7**, following this page, show the volumes of remittances deposited for each of the three agencies (FTB, BOE, and EDD) during 1986. It is evident from the graph and the chart that each agency has several peak months. More remittances are deposited during these months because of the types of remittances due during those months. For FTB, with the peak months of April, June, and September, April accounts for 31 percent of the yearly volume. For BOE, February, May, August, and November comprise the peak months, with the variation in volumes of remittances deposited being less than that for FTB. The peak months for EDD are the same as the those for BOE (February, May, August, and November) plus the addition of October. The variation in volumes for EDD is similar to that of BOE.

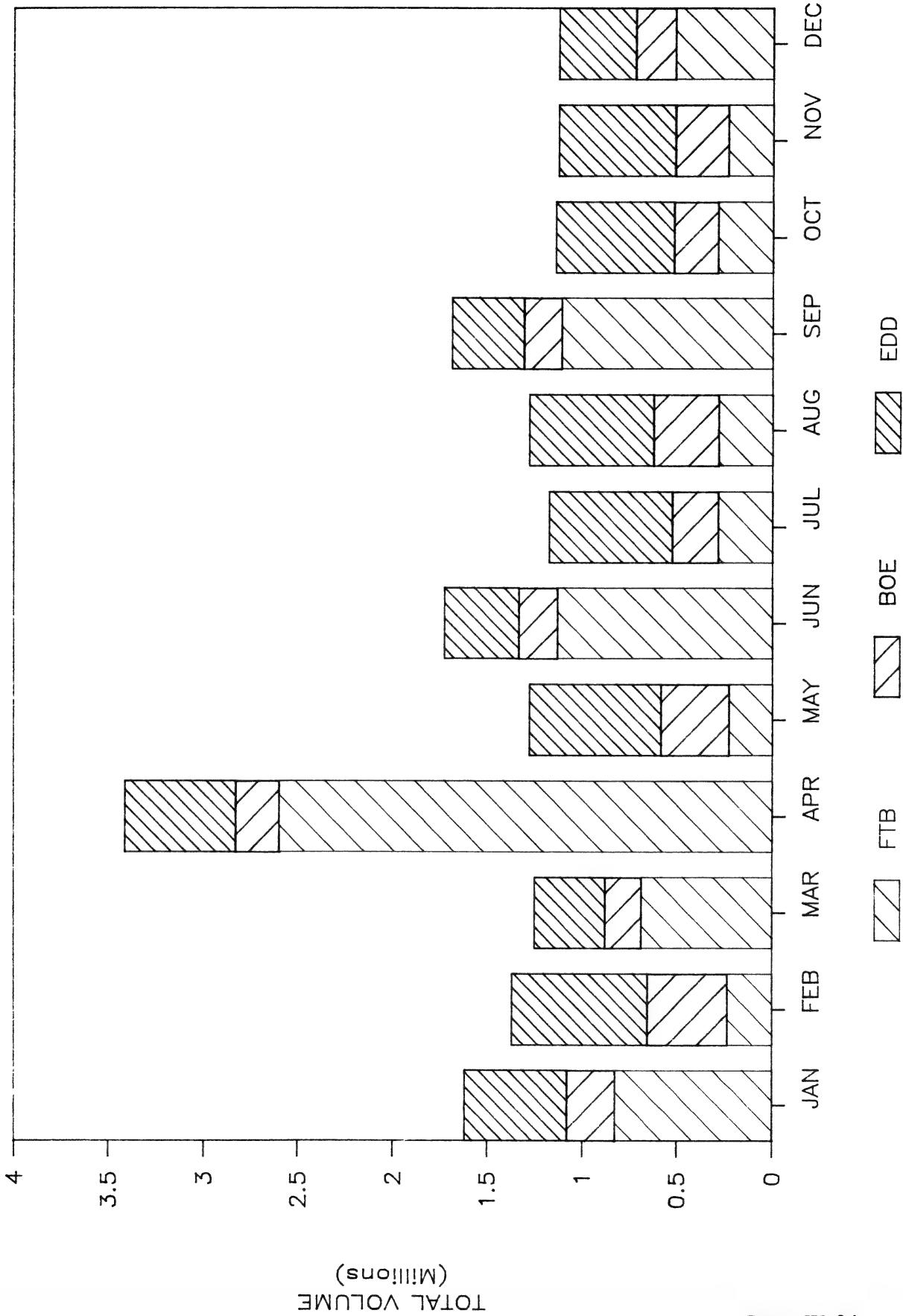
The graph on **Exhibit IV-8** displays the combined volumes of all three agencies. FTB accounts for 46 percent of the total combined volume and, therefore, has a major impact on the consolidated operation. BOE is the smallest of the agencies, comprising only 17 percent of the combined volume, and EDD accounts for 37 percent. The variation in volumes on a **monthly basis** appears reduced when comparing the individual agencies' volumes and the volume of a consolidated operation. However, what needed to be compared are the volumes (for the agencies and a consolidated operation) on a daily basis. Fluctuations in cashiering operations occur on a day-to-day level, and, since staffing is based on volume, we need to analyze the variations in volume from day-to-day. Thus, daily volumes form the basis of the analysis for workload smoothing. **Exhibits IV-9 through IV-12** show the daily volumes expressed as a percentage of monthly volumes for FTB and a consolidated operation during the months of April, May, June, and August.



VOLUMES

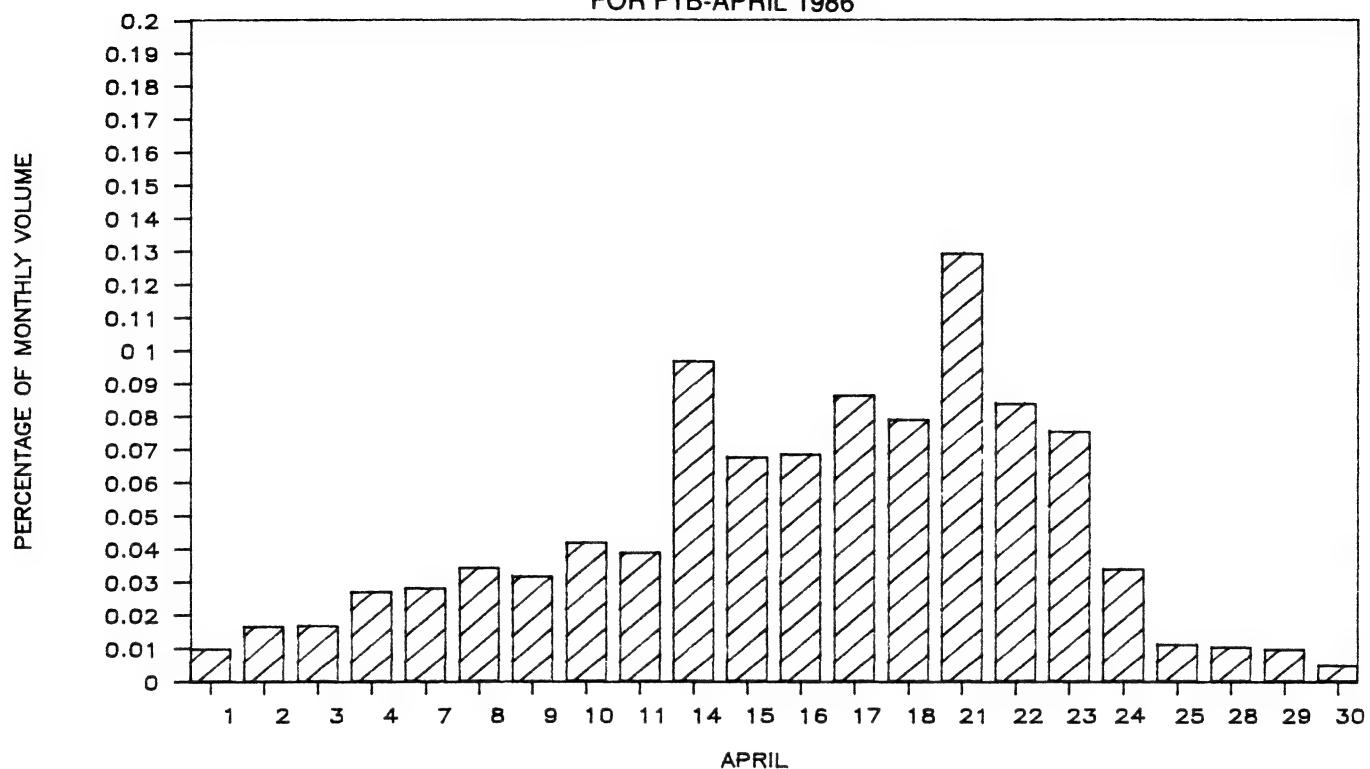
	January	February	March	April	May	June	
FTB	827,737	235,049	690,216	2,599,281	228,428	1,132,256	
BOE	254,411	419,262	191,911	231,865	357,919	203,925	
EDD	540,635	717,975	373,266	584,958	693,990	392,422	
TOTAL	1,622,783	1,372,286	1,255,393	3,416,104	1,280,337	1,728,603	
	July	August	September	October	November	December	Total
FTB	286,193	282,596	1,109,557	287,141	234,981	513,182	8,426,617
BOE	242,888	344,465	200,383	232,139	277,488	211,113	3,167,769
EDD	649,648	656,248	381,527	625,663	619,070	406,753	6,642,155
TOTAL	1,178,729	1,283,309	1,691,467	1,144,943	1,131,539	1,131,048	18,236,541

COMBINED VOLUMES
FOR ALL THREE AGENCIES—1986



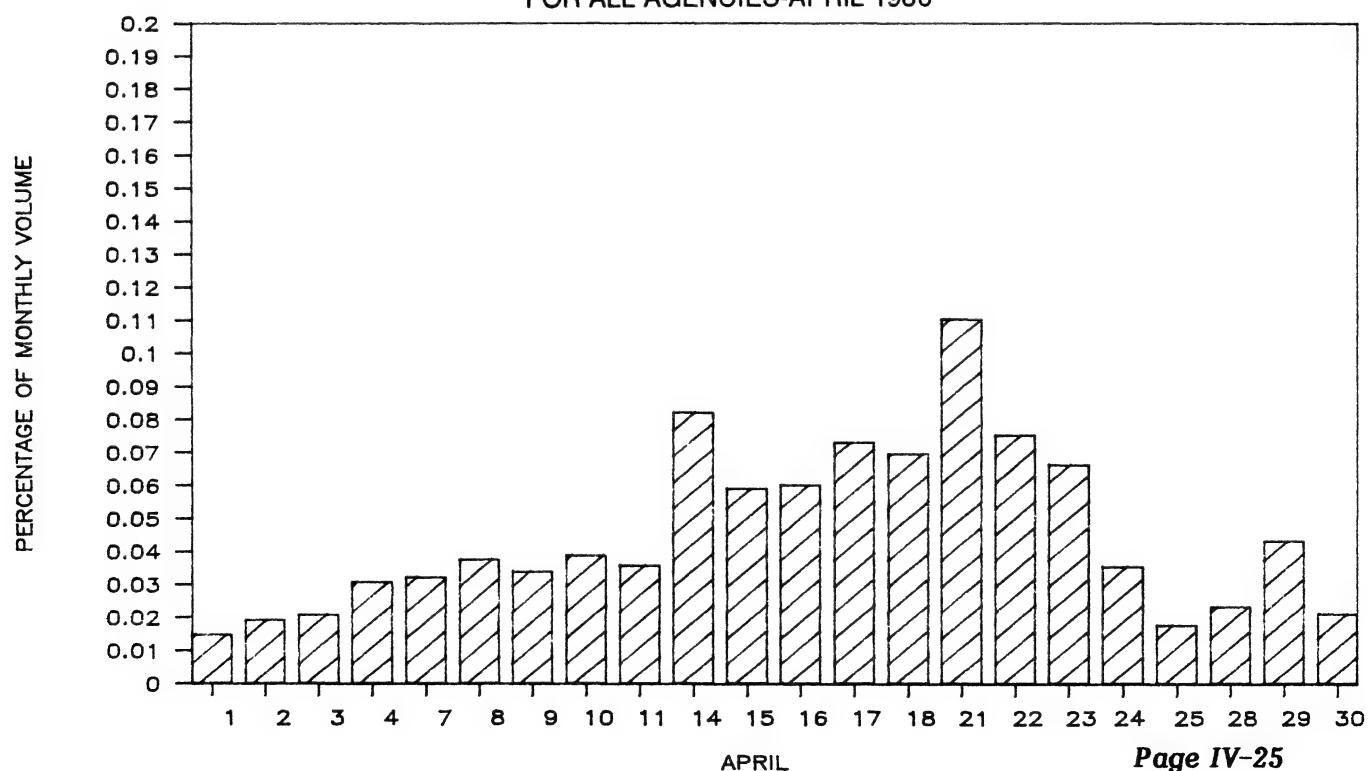
PERCENTAGE OF MONTHLY VOLUME BY DAY

FOR FTB-APRIL 1986

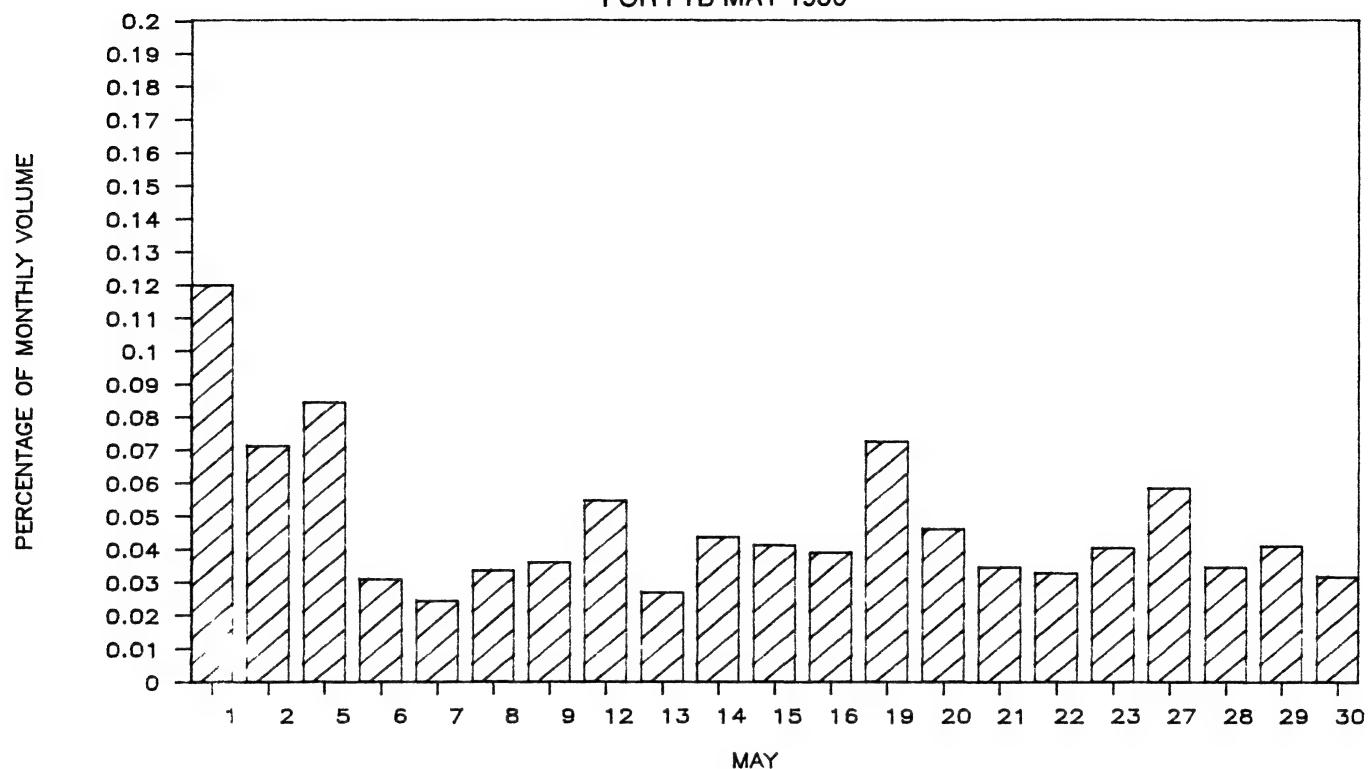


PERCENTAGE OF MONTHLY VOLUME BY DAY

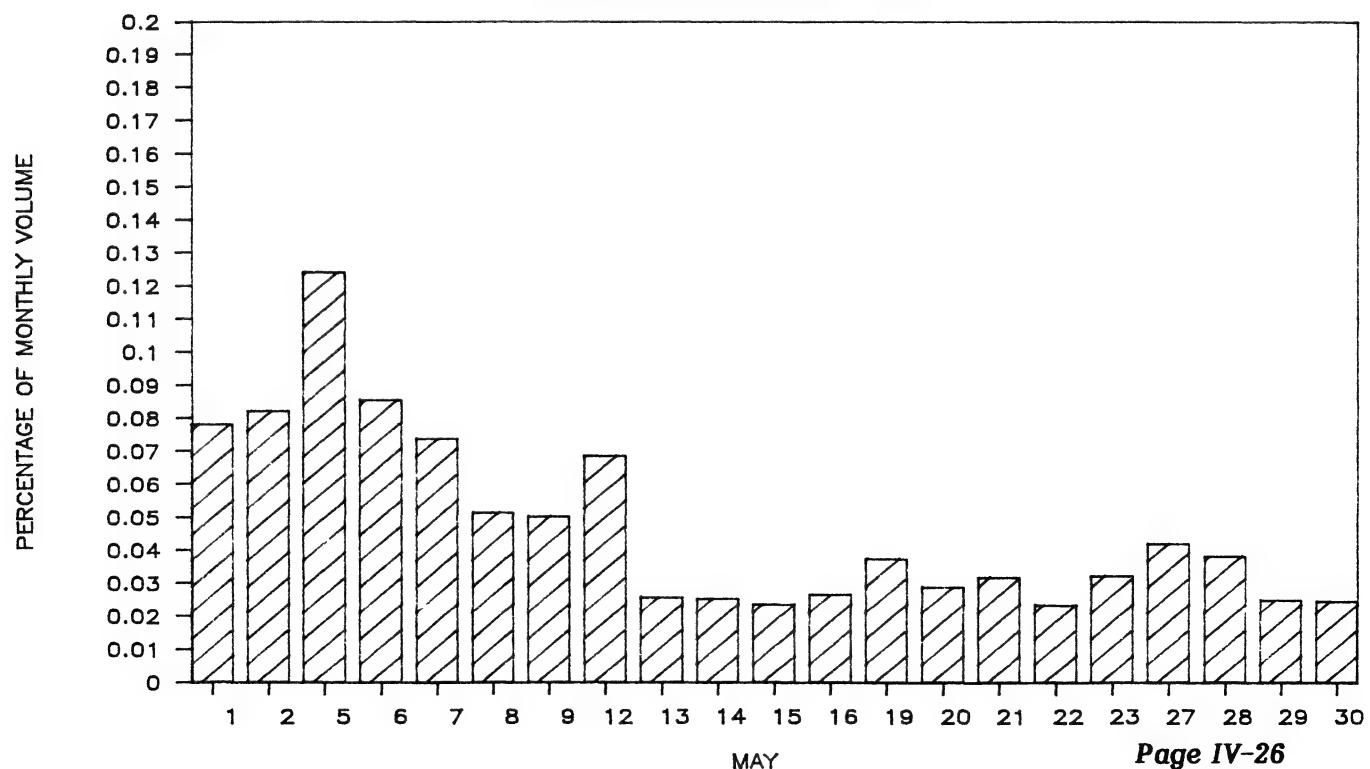
FOR ALL AGENCIES-APRIL 1986



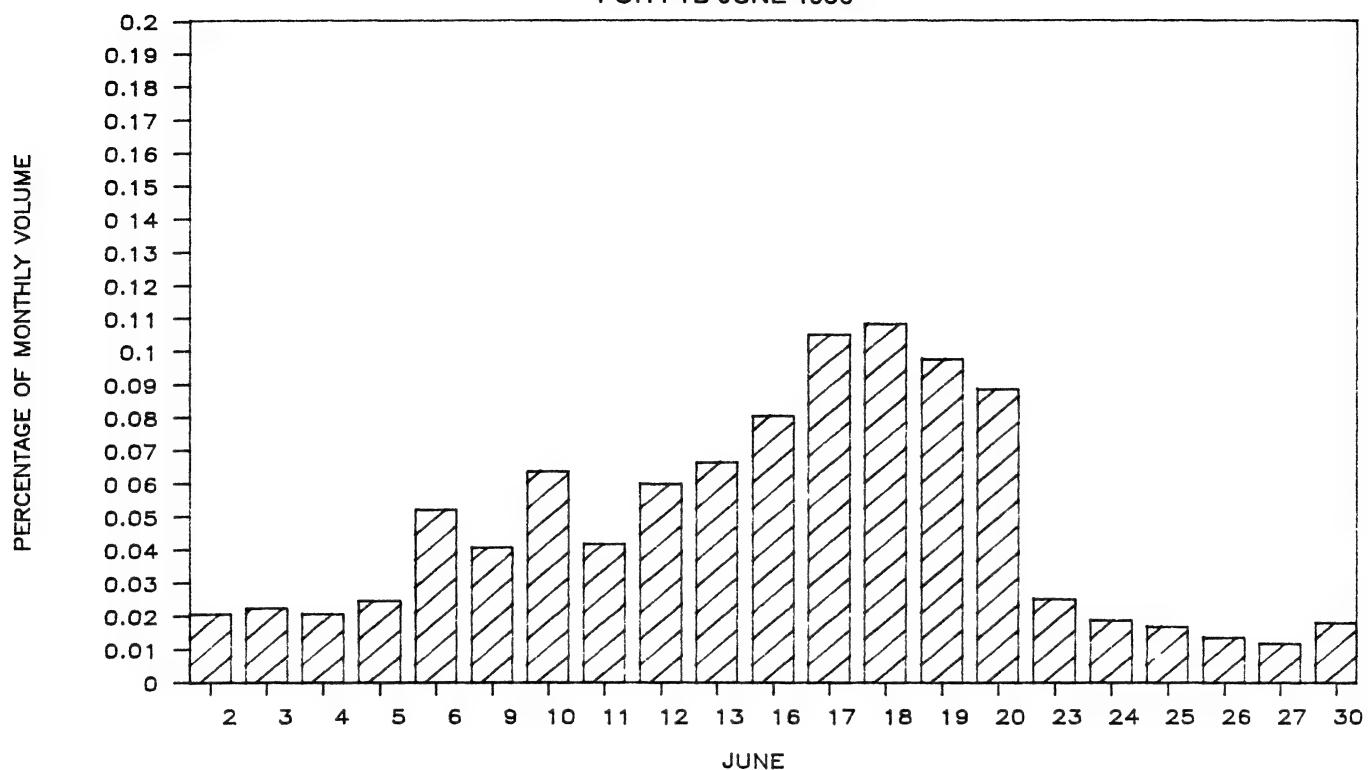
PERCENTAGE OF MONTHLY VOLUME BY DAY FOR FTB-MAY 1986



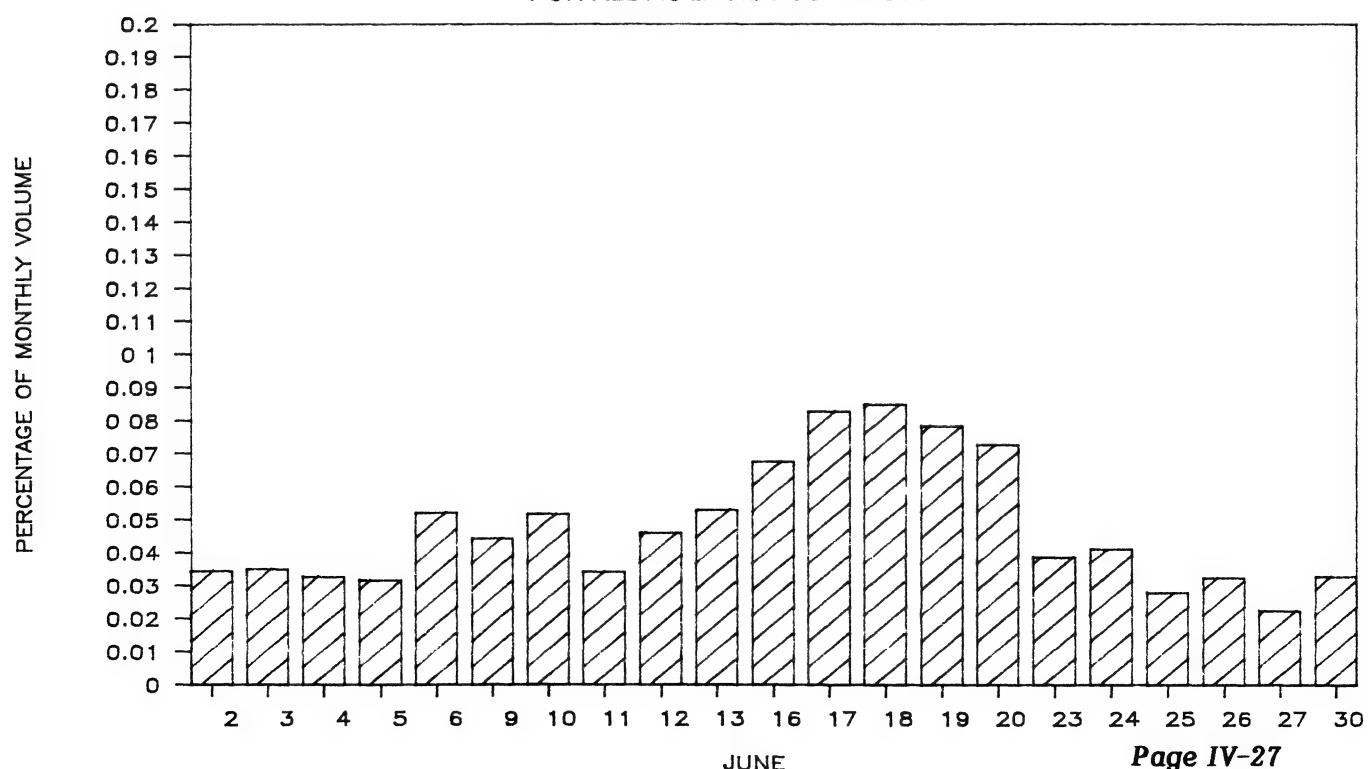
PERCENTAGE OF MONTHLY VOLUME BY DAY FOR ALL AGENCIES-MAY 1986



PERCENTAGE OF MONTHLY VOLUME BY DAY
FOR FTB-JUNE 1986

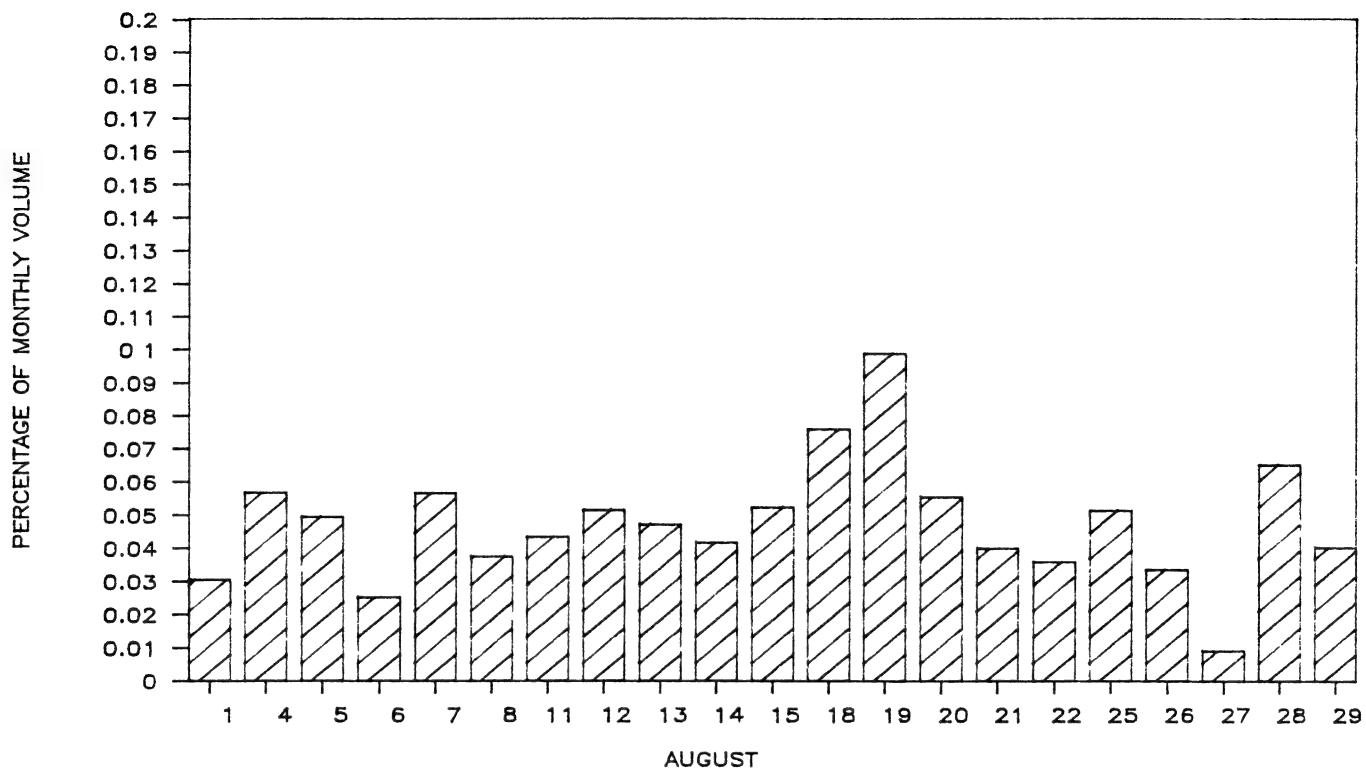


PERCENTAGE OF MONTHLY VOLUME BY DAY
FOR ALL AGENCIES-JUNE 1986



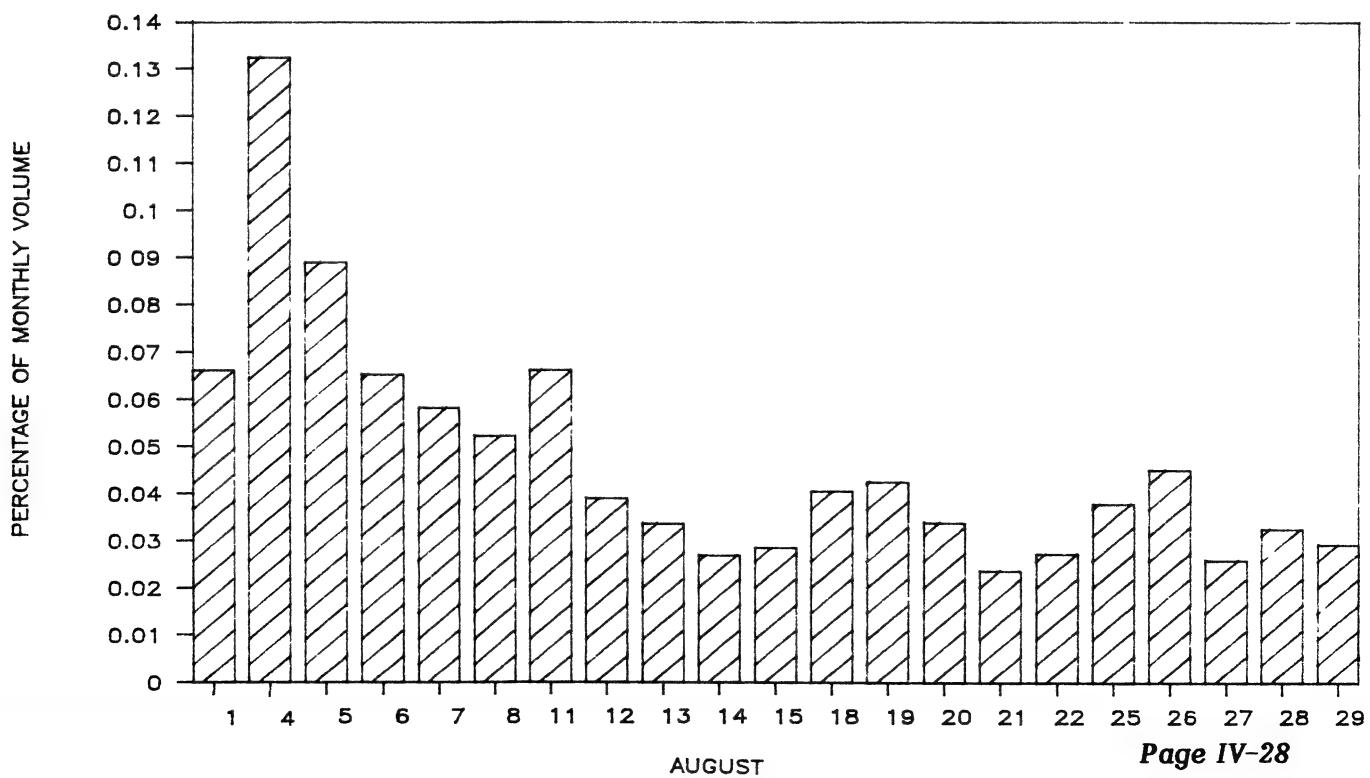
PERCENTAGE OF MONTHLY VOLUME BY DAY

FOR FTB-AUGUST 1986



PERCENTAGE OF MONTHLY VOLUME BY DAY

FOR ALL AGENCIES-AUGUST 1986



In analyzing the graphs, it is hard to assess how much or how little workload smoothing occurs. Therefore, we proceeded to quantitatively analyze the daily volumes.

In order to quantitatively assess the potential for workload leveling, we applied a technique called the "*sum of deviations from the means squared*" to compare the volumes of the individual agencies to those of the consolidated operation. This method involves squaring the difference between the actual volume for a day and the average volume for a particular month, and then obtaining the sum of that figure for every day of the month. Since the magnitude of the volume for the individual agencies differs from that of a consolidated operation, the volumes were indexed by calculating the daily volume as a percent of the total volume for the month. This allowed us to compare the individual agencies and the consolidated operation on the same scale. The four months used are representative of the year. Our results are shown in Table IV-1.

TABLE IV-1
INDEXED SUM OF DEVIATIONS FROM THE MEAN SQUARED

	FTB	Consolidated	% Change
April	253	135	-47
May	105	152	+45
June	213	73	-66
August	69	135	+49

In determining whether the consolidated operation would result in a smoothing of the workload, the indexed sum of deviations from the mean square for FTB should be compared to that of the consolidated operation. The reasoning behind this is that since FTB comprises 46 percent of the combined volume, a reduction in the variation associated with FTB through consolidation would lead to a smoothing of the workload overall. A decrease in the index implies that a consolidated operation results in a smoothing of the workload during the month, and, therefore, is beneficial. Thus, for April, consolidation would result in a 47 percent decrease in the index and for June, consolidation would result in the index decreasing 66 percent. Both May and August show an increase in the index under a consolidated operation, with May increasing 45 percent

and August increasing 49 percent. Therefore, since two of the months result in smoothing while two do not, no specific conclusions result concerning the effect of consolidating operations and the smoothing of the workload on a daily basis.

The issue of remittance reporting arises again. It would have been advantageous to have the number of items received on a daily basis, but a float analysis conducted by the OAG showed that a majority of checks are deposited on the same day they are received. If we assume that the items are deposited on the same day they are received, the results of our analysis would not change because items received would generally equal items processed.

Historical Hours Worked

In our analysis of the historical hours worked, we focused on production hours. Production hours do not include vacations, general leaves of absence, holidays, etc., but do include paid breaks and personal time off. In addition, these hours do not include management or supervisory time.

For each agency, a positive relationship occurs between the total volume and the number of production hours worked. The months that use the most hours also are the months that deposit the highest volume of remittances. Therefore, the hourly peak months for FTB are April, June, and September, while February, May, August, and November are the peak months for BOE and EDD (with EDD also including October). However, for FTB, March is the only month that uses a disproportionate number of hours relative to the volume of remittances. This can be explained by the increased staffing and training that the FTB incurs to get ready for the large volume of remittances received in April.

The combined hours for January through August were calculated using all three agency's actual hours. For the remaining four months, only FTB's and BOE's actual hours were used along with projections for what EDD's would have been without the new Tax Accounting System. It is evident that FTB accounts for most of the combined hours. In

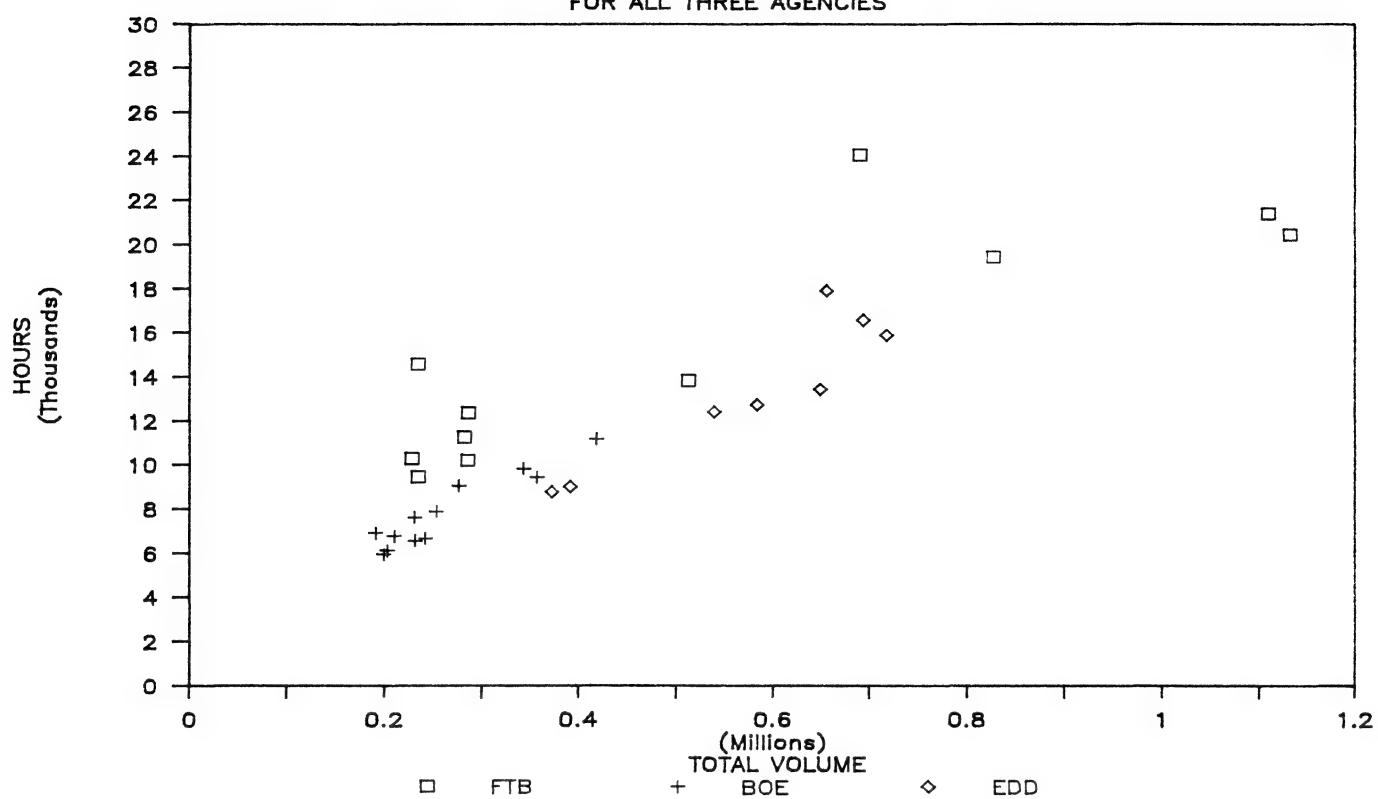
fact, FTB accounts for 50 percent of the production hours, while BOE and EDD comprise 19 and 31 percent, respectively. The month of April uses the most hours due to the increase in hours by FTB. Hours for the rest of the months are similar, which corresponds to the monthly volumes being similar (but not the daily volumes).

Analysis of Economies of Scale

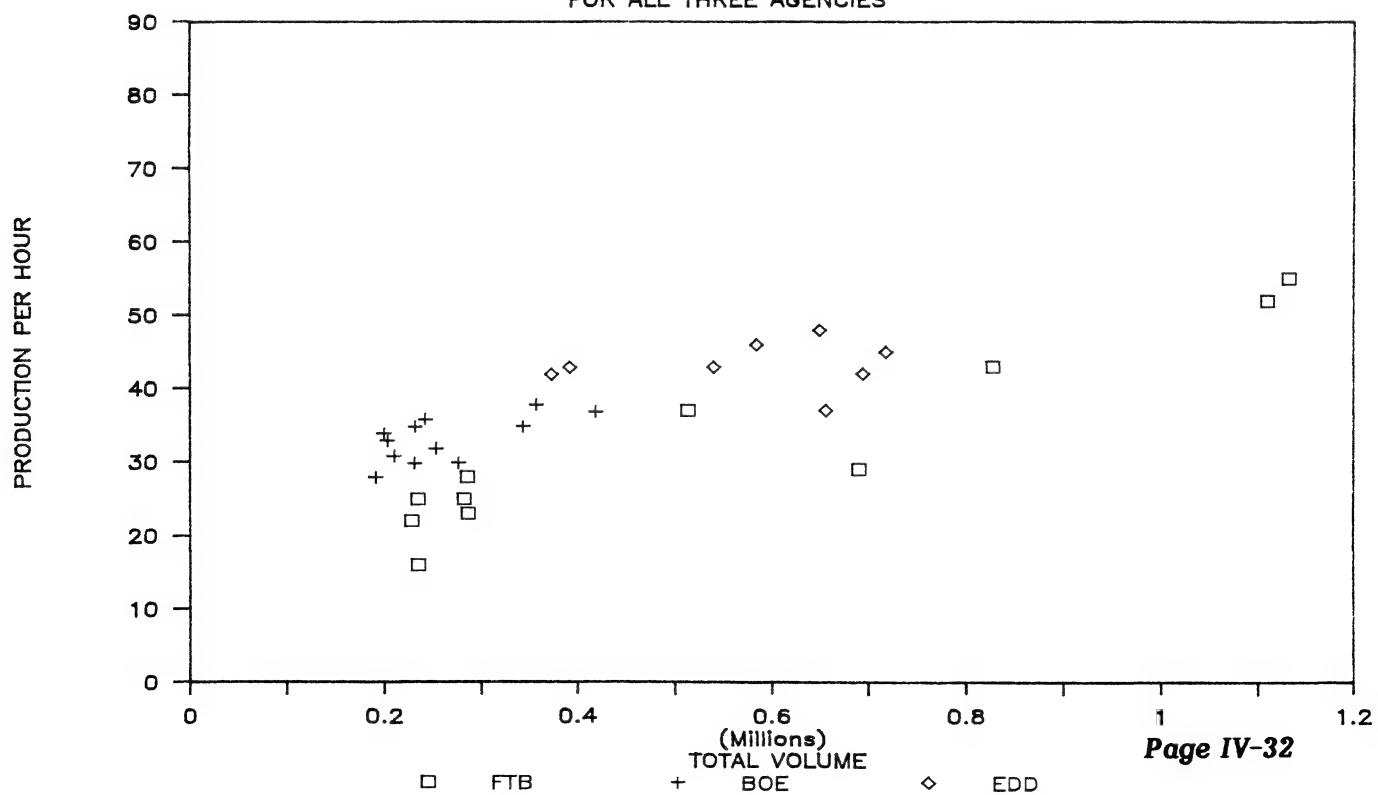
Exhibits IV-13 through IV-16 illustrate two approaches for analyzing relationships between workload volume and hours worked in order to assess whether economies of scale may be achieved. Both approaches incorporate the month of April for FTB in the analysis even though April is not shown graphically. This is so the graphs can be viewed together on the same scale. The top graph on each of the exhibits shows the relationship between workload volume and production hours. With economies of scale, as volume increases, hours worked would increase at a decreasing rate. Thus, a logarithmic (curve-linear) relationship results between workload volume and hours. In the bottom graph, the relationship between volume and productivity per hour is shown. Here, with economies of scale, as volume increases, productivity should increase until volume is past the level where economies of scale are present. At the increased point, production per hour should level off and then start to decline with increases in volume. This implies a logarithmic relationship until the leveling off occurs, after which the relationship becomes negative (an increase in volume results in a decrease in productivity). An assumption underlying a consolidated operation is that economies of scale would be at work. Thus, we would expect to find an economies of scale-type relationship between volume and hours worked coupled with a similar relationship between volume and productivity per hour.

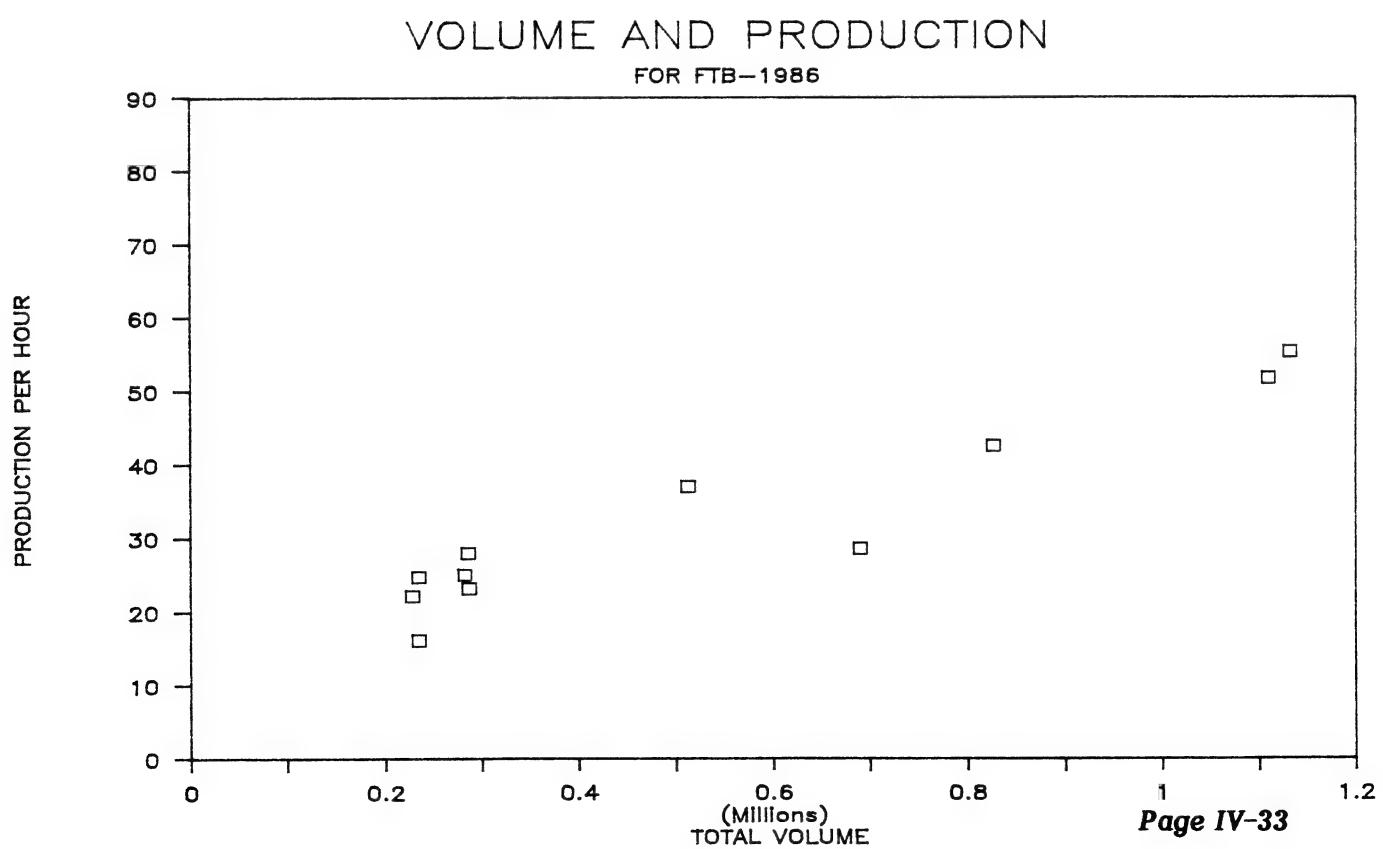
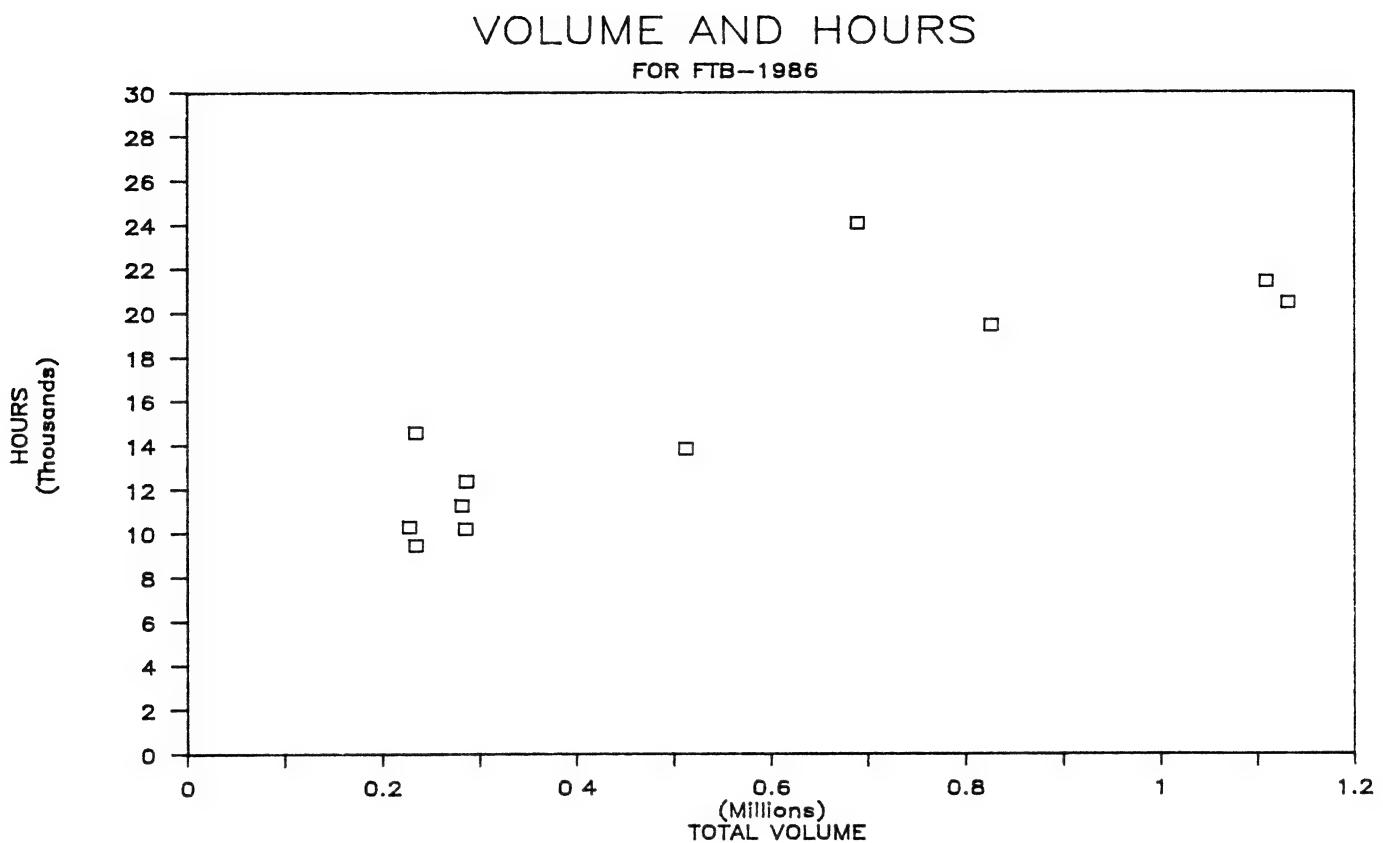
In evaluating whether economies of scale might be present, both linear and logarithmic regression analyses were applied. The regression analyses produced statistical relationships that are not strong enough to use in our staffing analysis. Therefore, the statistical evidence should be understood as a generalization of the different relationships among volumes, hours and productivity and should not be used as a means of prediction.

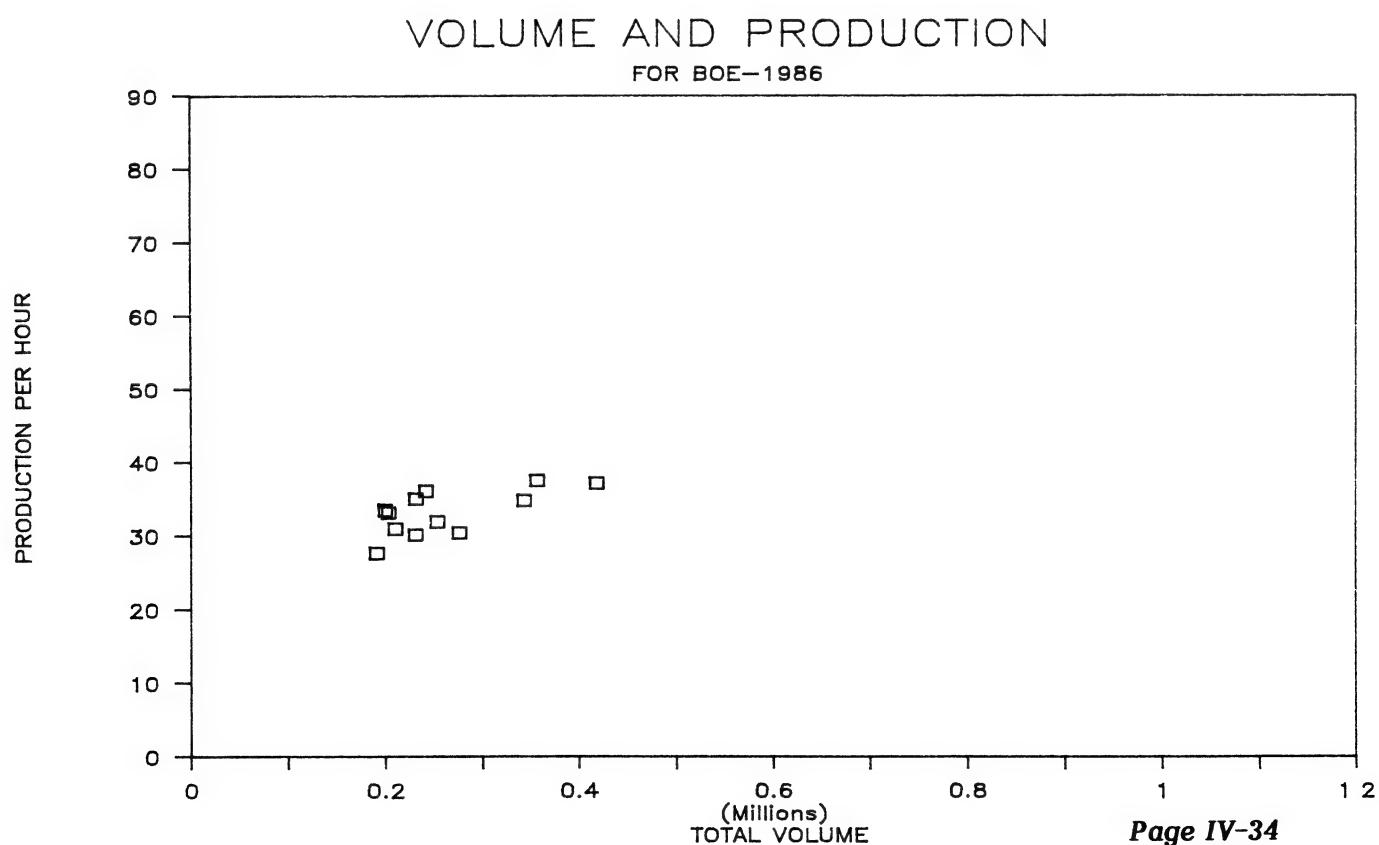
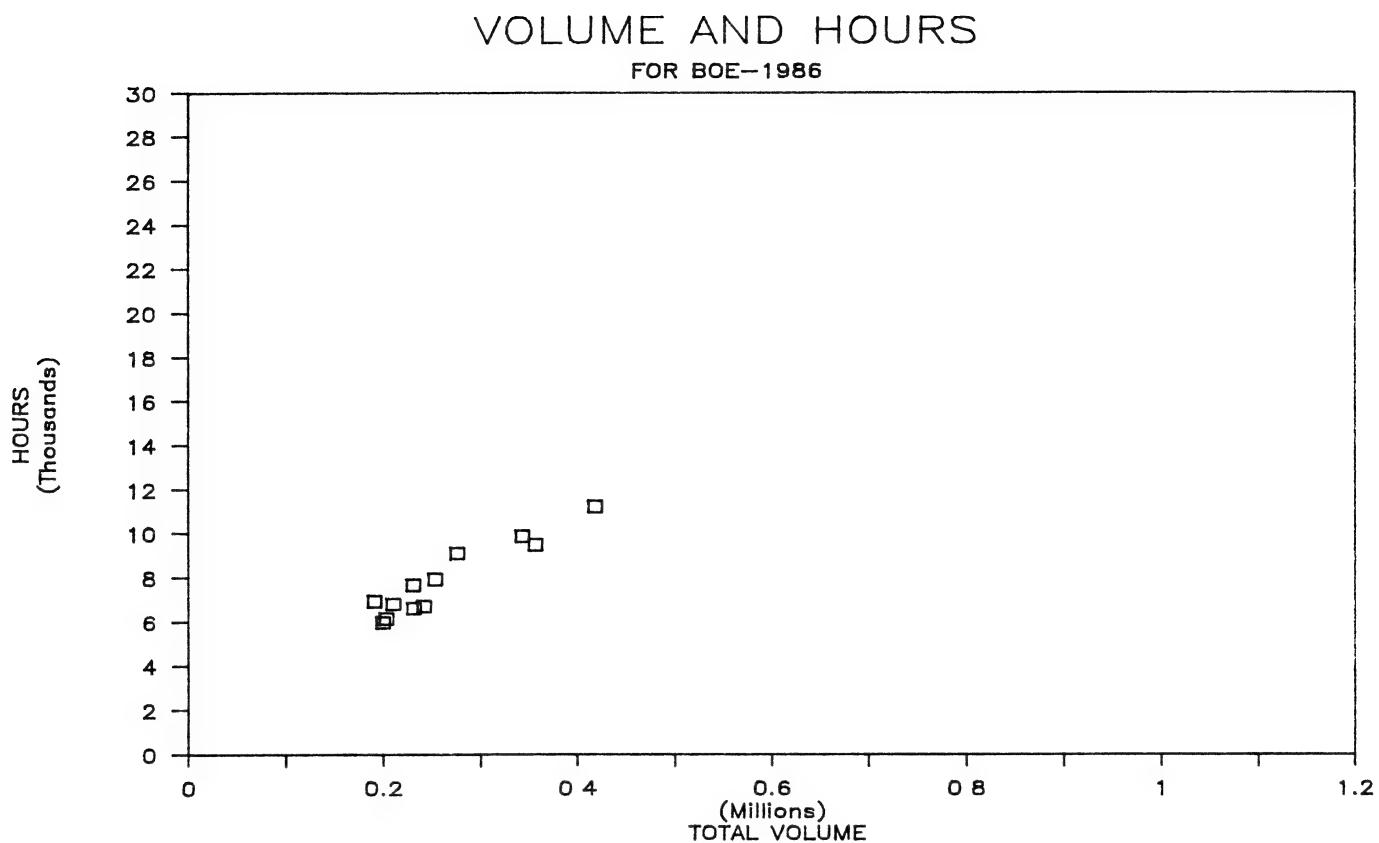
VOLUME AND HOURS FOR ALL THREE AGENCIES

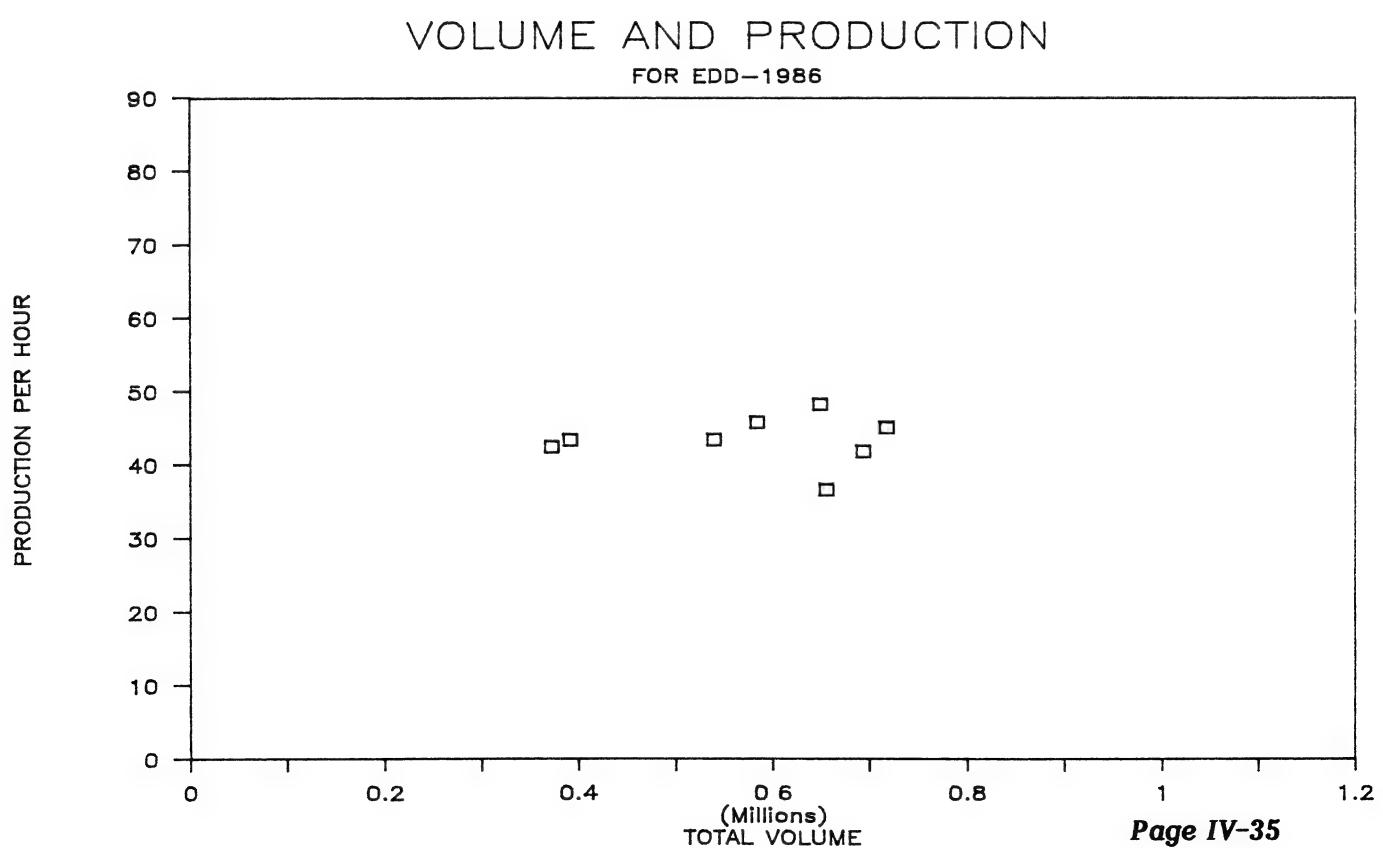
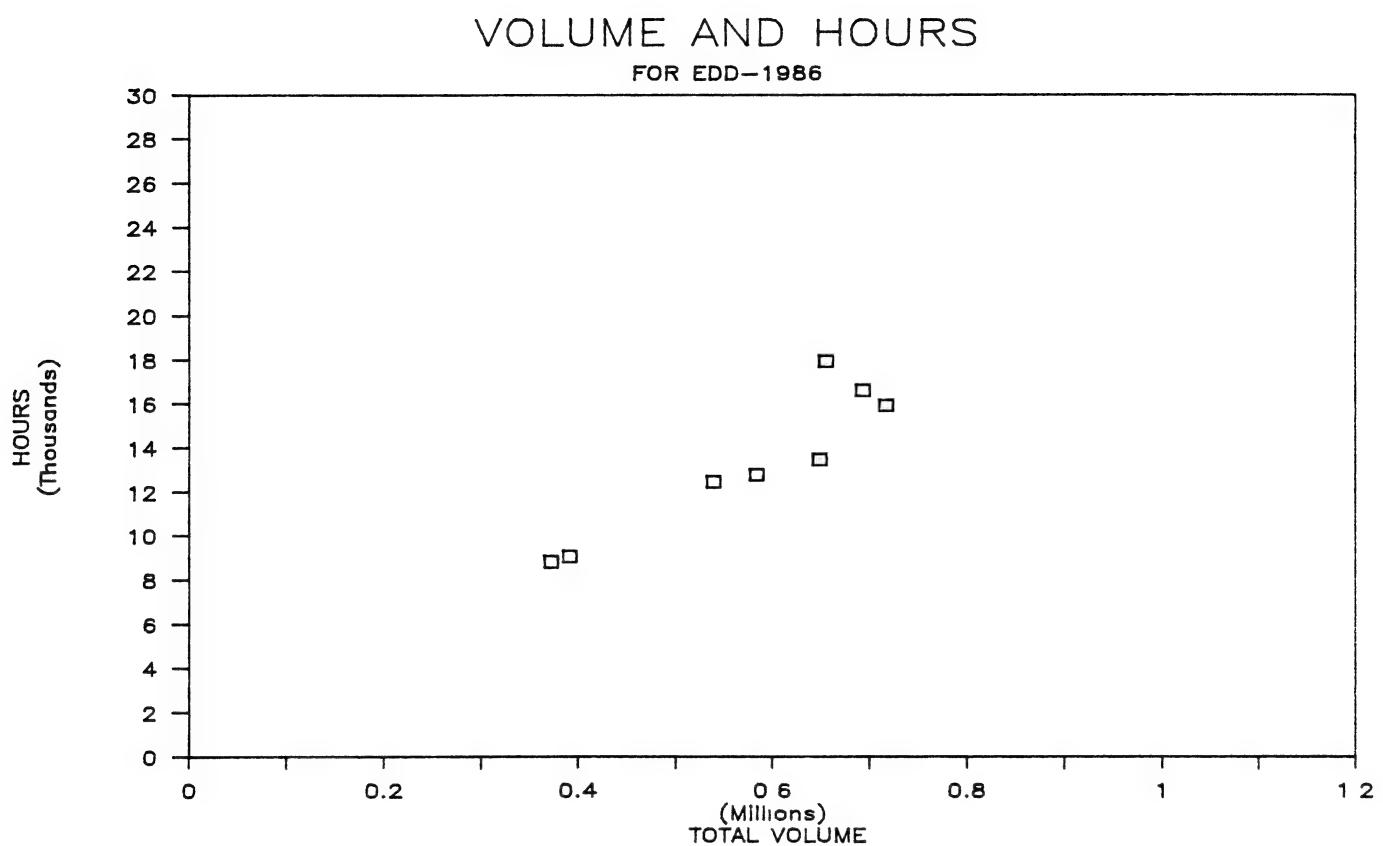


VOLUME AND PRODUCTION FOR ALL THREE AGENCIES









In analyzing the relationships between volume and productivity for the individual agencies, it is apparent that neither a linear nor a logarithmic relationship exists. Even when trying to find a relationship for the consolidated operation, none exists. Thus, no economies of scale were identified. The statistics indicate that the relationship is random; the correlation between volume and productivity is so small that we cannot make reliable inferences from the relevant graph. Therefore, we next considered the relationship between volume and hours worked.

In comparing both the linear and logarithmic regression analyses to see if there is a relationship between volume and hours worked, the linear analysis had the best correlation. In fact, a high linear correlation exists between volume and hours for each of the individual agencies as well as for the consolidated operation. This makes sense, because the relationship states that as volume increases, the number of hours worked increases. But, in order to have economies of scale at some level of volume, the number of hours worked must start to decrease. It is apparent from Exhibit IV-13 that as volume increases, the number of hours worked increases, and continues to increase at all levels of volume. Once again, there are no economies of scale apparent.

Based upon our analysis, we do not believe the three agencies would experience significant economies of scale through consolidation (based on historical volumes and hours worked). In fact, the agencies might already be at the volume level where economies of scale are at work and, therefore, might not expect an increase in volume to lead to an increase in production. The issue of the intangible effects that a consolidated operation could have on productivity should be considered as well. Both gains and losses in productivity could occur, including those potential losses attributed to increased complexity of work and potential gains attributable to more effective utilization of equipment.

Staffing Requirements

Staffing requirements for the consolidated center were determined in a three step process. First, we used **actual** historical hours of production as a basis for determining the production staffing levels. Second, we used a span of control formula to apply ratios of supervisors to production staff and arrive at the required number of supervisors. We used a similar approach to staffing the clerical support unit. Finally, we reviewed management requirements to determine number of managers needed for the consolidated center. The balance of this subsection presents the staffing requirements and assumptions by level, in the following order:

- Production staff
- Supervisory staff
- Clerical support staff
- Management.

Production Staff

The agencies employ three different approaches to staffing for production during the peak processing periods. A summary of the approaches are:

Franchise Tax Board

- Uses permanent full-time and intermittent staff as core staffing
- Uses temporary personnel to staff the "April peak"
- Runs two shifts during peak
- Uses overtime

Employment Development Department

- Uses permanent full-time and intermittent staff as core staffing
- Uses temporary personnel to staff the quarterly peaks
- Runs two shifts year round
- Uses overtime
- Uses personnel borrowed from other units

Board of Equalization

- Uses permanent full-time and intermittent staff as core staffing
- Uses overtime
- Uses personnel borrowed from other units

The following assumptions were used in establishment of the production staffing levels for the consolidated cashiering model:

- Day-to-day management decisions and optimal use of staff were not built into the model
- Actual, historical hours were used so inherent processing attributes are included in the model
- Reduction of current mail pick up activities by individual agencies will offset costs of delivering returns to agencies
- Using personnel borrowed from other units is not built into the model
- Permanent full-time and intermittent personnel will be used
- Temporary personnel will be used in generally the same proportion as today
- Two shifts may be required to process all remittances during some periods.

We took the actual historical production hours and applied a "production personnel year" formula to ascertain the number of production personnel years required to staff the center. The production personnel year was determined in the following manner:

Total annual hours	2,080
Less: Vacation	100
Other leave (sick, death, etc.)	80
Holidays including personal	<u>104</u>
Production Personnel Year	1,796

The 1796 hours represents the expected number of production hours the consolidated center would have available from each personnel year equivalent. In other words, the consolidated center requires one full-time equivalent (FTE) for every 1,796 historical production hours. Staffing requirements in a cashiering center vary, not only by month, but by day or hour. The production staffing requirements are summarized by month in **Exhibit IV-17**. The production personnel year of 1,796 hours was divided by twelve to arrive at an average "productive personnel month" (149.67 hours). The historical hours for each month were divided by the productive personnel month hours to determine the total number of production staff, expressed in full-time equivalents, required for the center.

All production hours will not be worked by permanent (full-time or intermittent) personnel so it was necessary to identify temporary as well as permanent FTEs. The following assumptions were made in arriving at the breakdown between permanent and temporary staffing:

- The same relative proportion of temporary FTEs to permanent FTEs would exist under consolidation for the two agencies (EDD and FTB) that use temporaries currently
- The Board of Equalization would employ temporaries in the same relative proportion as EDD does today since the processing peaks are so similar.

Weighted averages of temporary productive hours by month were developed and applied to the total number of production staff to determine the number of temporary FTE staff required by the consolidated center. The number of permanent production staff is the difference between the total production staff and the temporary production staff.

STAFFING ANALYSIS CONSOLIDATED CASHIERING

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
PRODUCTION HOURS BY AGENCY													
Franchise Tax Board	19,444	14,587	24,062	88,368	10,298	20,453	10,216	11,274	21,422	12,369	9,480	13,850	255,823
Board of Equalization	7,959	11,248	6,939	7,686	9,514	6,145	6,720	9,892	5,975	6,618	9,110	6,808	94,614
Employment Development	12,446	15,925	8,804	12,763	16,602	9,042	13,468	17,937	9,190	15,097	14,912	9,801	155,987
Total current production hours	39,849	41,760	39,805	108,817	36,414	35,640	30,404	39,103	36,587	34,084	33,502	30,459	506,424
Total projected production hours	39,849	41,760	39,805	108,817	36,414	35,640	30,404	39,103	36,587	34,084	33,502	30,459	506,424
Savings	0	0	0	0	0	0	0	0	0	0	0	0	0
PRODUCTION STAFF PROJECTIONS													
Permanent staff	161.8	170.8	137.7	203.5	171.5	139.0	143.8	187.6	145.6	155.1	165.2	139.4	
Temporary staff	104.4	108.3	128.3	523.5	71.8	99.1	59.4	73.7	98.9	72.6	58.6	64.1	
TOTAL PRODUCTION STAFF	266.2	279.1	266.0	727.0	243.3	238.1	203.2	261.3	244.5	227.7	223.8	203.5	
SUPERVISION													
CLERICAL SUPPORT	21.4	22.5	20.2	37.8	20.7	18.9	17.3	22.4	19.5	19.1	19.5	17.1	
MANAGEMENT	4	4	4	4	4	4	4	4	4	4	4	4	
TOTAL STAFFING	295	309	293	772	271	264	228	291	271	254	250	228	

The total production staff level represents the total number of FTEs required. We made no attempt to analyze various permutations of scheduling including shared positions, permanent part-time positions, or second shifts. A previous subsection of this report, "Organization", described the classifications used in the conceptual model. The subsection did not, however, show the ratio of staff allocated within the classifications. The conceptual consolidated cashiering center uses the following classification ratios for permanent personnel:

- 1 Office Technician to 10 Office Assistants
- 1 Office Assistant II to 5 Office Assistants I.

These classification ratios were used to accomplish the following:

- Office Technicians and Office Assistant II positions can fill lead roles in the center during peak periods
- Promotional opportunities exist within this series
- The mix is economically reasonable for the tasks performed within the center.

Supervisory Staff

Supervisory staffing was determined by applying a ratio of supervisors to production staff FTEs. The ratios used are a combination of cashiering industry standards and current agency ratios. The following ratios were used in ascertaining supervisory staffing levels:

- 1 supervisor is required for every 10 permanent production staff FTE
- 1 supervisor is required for every 20 temporary production staff FTE from May through March
- 1 supervisor is required for every 30 temporary production staff FTE for the month of April.

The supervisory staff is comprised of a core of permanent full-time personnel which is supplemented during peaks with intermittent personnel. If the consolidated center can use supervisors with an employment status other than permanent, that should be done. The use of limited term appointment supervisors was not included in the model.

Clerical Support Staff

The staffing for the clerical support unit is based on a ratio of clerical staff to a total of management and supervisory staff. Numbers of clerical support staff, like management, is considered "fixed". While some duties such as timekeeping are a function of the number of production staff, most of the activities are ongoing. A ratio of one clerical support person to six supervisors and managers (excluding April) was used to determine the required staffing level. It is anticipated that replacement for this unit would not be required during vacations and other absences if leave is scheduled properly.

Management

Management, by its nature, is an ongoing activity that is staffed by permanent full-time personnel. Exhibit IV-17 shows that three managers are required for the consolidated center. A numeric ratio (e.g., 1:10) was not used to determine management staffing. Rather, the span of control and the relative level of operational and processing difficulty that existed in each functional area of cashiering (mail, extraction/preparation, encoding and banking) was used as a basis. It is anticipated that coverage during vacations and other absences would be covered by other managers or by supervisors on a temporary basis.

E. EQUIPMENT

This subsection details the equipment requirements for the consolidated cashiering operation. Included is a discussion of:

- Current Equipment
- Consolidated Design
- Equipment Requirements
- Capacity Plan
- Consolidated Design Equipment Configuration.

The results presented are based on information provided by the involved agencies and the assigned Auditor General representatives. Our analysis assumes the following:

- The equipment currently dedicated to cashiering functions in each department is available for use in the consolidated operation
- The consolidated configuration should maximize the use of the State's current investment in cashiering equipment by not replacing equipment with a useful remaining life
- Alternative equipment would be assessed; however, a detailed assessment of significant technology upgrades such as image capture or optical character recognition would not be done within the scope of this study.

Our approach to the equipment analysis is based on these assumptions, and the fact that the conceptual functional processes within the consolidated operation are quite similar to the operations performed today. Another consideration in our approach to evaluating potential equipment configurations was the amount of non-standard mail received by the agencies today. Approximately fifty-eight percent of EDD's, ten percent of BOE's, and all of FTB's mail is non-standard and therefore does not lend itself readily to automation. The remainder of this subsection presents our findings.

Current Equipment

The objective of this activity was to inventory and assess the current equipment which could be relocated to the consolidated operation, and the capacity associated with this equipment. The capacity of a majority of the equipment types is not dependent on factors such as the operators' relative expertise or on the number and types of activities performed at the machine. For example, the operation of a document detector is fairly straight forward; little training is required and only one activity is performed. However, the throughput rates on automated extractors can vary because capacity is subject to a number of factors including:

- Quality and condition of mail
- Operating condition of extractor
- Operator proficiency
- Number of activities performed at extraction desk
- Workstation layout.

A review of these factors as they apply to current agency operations and a review of comparable industry standards resulted in our conclusion that a throughput rate of 700 items per hour on an extractor is reasonable and achievable. For example, catalog sales cashiering operations which are similar to the consolidated center's operations, achieve a throughput rate of 700-900 items per hour. If throughput rates on an automated extractor are lower than, or equal to, the productivity rates achieved manually, then the equipment would not be cost effective. In that case, the extraction process should be performed manually. Staffing and expected productivity are based on actual, historical production hours which reflect *actual* throughput rates at the agencies.

Table IV-2, "Current Configuration", summarizes the equipment by category, shows the range of expected throughput by category, and indicates the total capacity per processing hour.

TABLE IV-2
CURRENT CONFIGURATION

	<u>No. of # Devices</u>		<u>Capacity</u>
	<u>Per Unit</u>		<u>Per Hour</u>
Slitters/Openers	7	1,000-20,000	45,080
Document Detectors	3	15,000-18,000	51,000
Extractors	15	700	10,500
Encoders	33	1,200	39,600
Reader/Sorter	1	39,000	39,000
Terminals	39	N/A	N/A

Consolidated Design

Next, we determined what types of equipment would be required in the consolidated operation based on the outline presented earlier in this section under "Workflow." The equipment required to support the consolidated operation includes the following:

Slitters/openers - Slitter/openers would be used during mail processing on non-standard mail only to open envelopes in preparation for manual extraction.

Document Detectors - Document detectors would also be used on non-standard mail only. These devices would be used during the extraction/preparation process after manual extraction occurs to verify that all contents of the envelope have been removed prior to discarding.

Automated Extractors - These devices are to be used on standard mail only. Automated extractors slit envelopes, feed the opened envelope to the operator, pull the sides of the envelope open so the operator can extract the contents, and run the envelope through an internal document detector. As noted earlier, standard mail comprises ninety percent of BOE's volume, and the DE88s processed by EDD.

Encoders - Encoders would be used for all remittances. Encoders endorse checks, put a magnetic ink record of the check amount onto the check and put the identification number on the check. Multiple pocket encoders would be used for backup in case the high speed sorter is inoperable.

Readers/Sorters - The reader/sorter equipment is used to capture deposit data, sort the remittances by bank, and to prepare both detail and management information regarding the current day's deposit. Filming can be selectively done based on needs of the agencies.

Terminals - Terminals are used to research information from each of the agencies databases to resolve exception items.

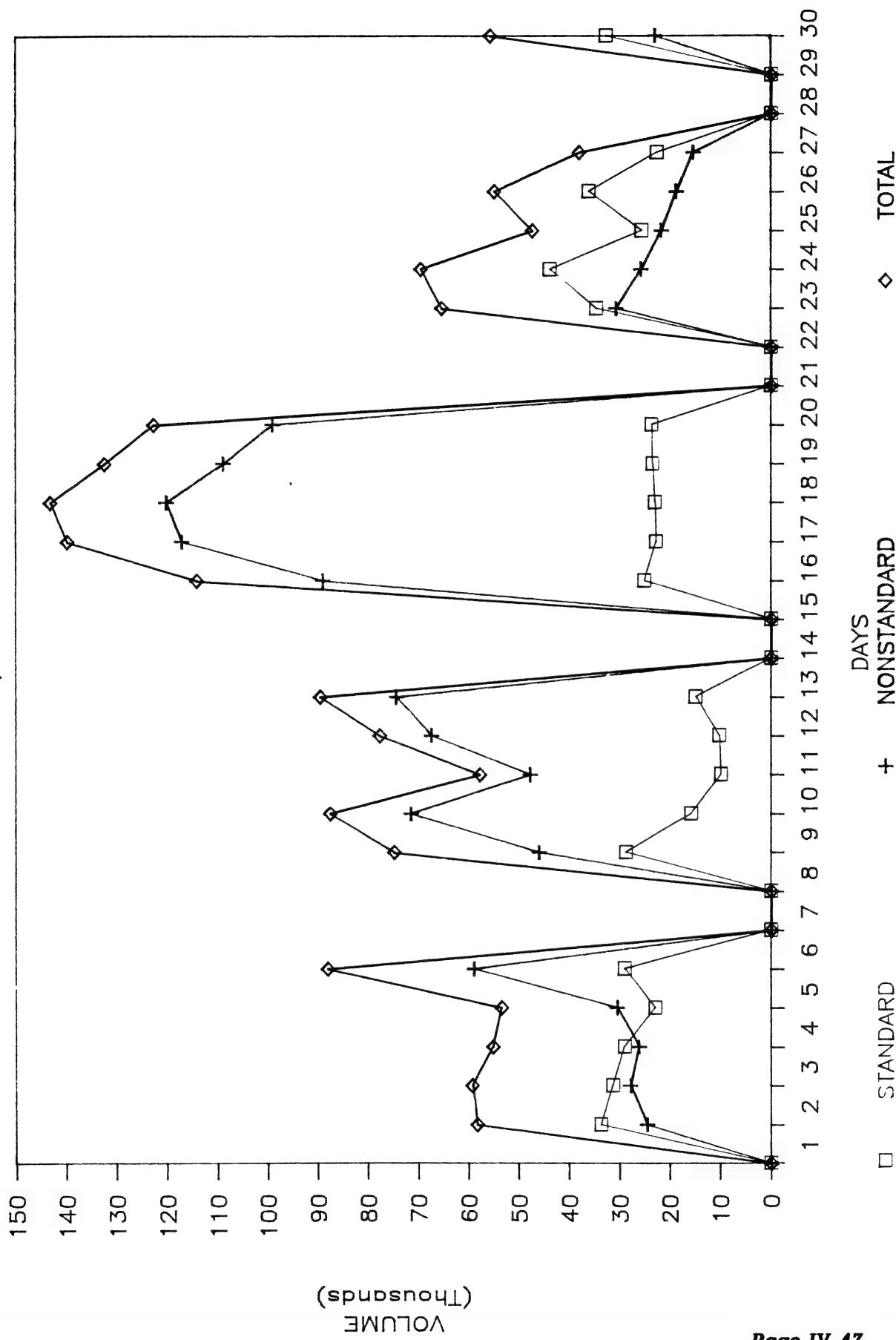
The above mentioned equipment types are all currently in use at one or more of the agencies. We evaluated potential replacements for the equipment, and contacted vendors to obtain information regarding alternatives. Full benefits of new processing technologies cannot be achieved in the consolidated operation without the standardization of processes, procedures, forms, envelopes and returns. The consolidated center can begin standardizing processes and procedures during implementation. However, the benefits of technology will not be achievable until forms, envelopes and returns used in the consolidated center are fully standardized. It is our recommendation that additional equipment expenditures, other than those required to meet increased volumes, should be deferred until a strategic plan is developed regarding the overall use of standardized materials and technology within the cashiering operation.

Capacity Plan

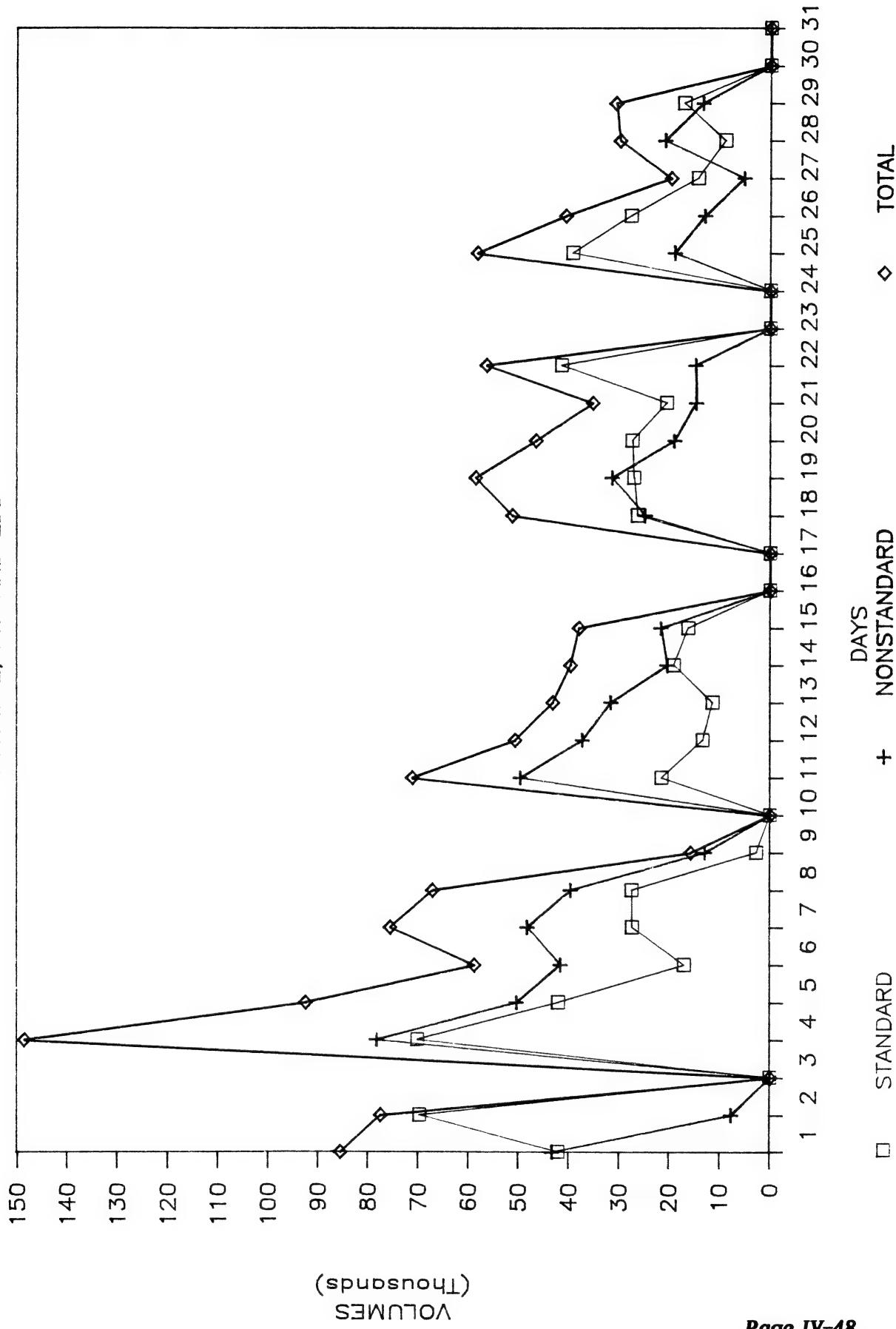
The objective of this activity was to determine the required hardware capacity necessary to support the anticipated consolidated cashiering volume levels. We started by analyzing selected months processing volumes by day. The months reviewed included a peak month, June, and an average month, August. **Exhibit IV-18 and IV-19**, on the following pages, show the actual processed volumes by day for the months of June and August. The exhibits show total daily volume, and a breakdown by standard and non-standard mail processed.

Using these two months, we established the thresholds, or required capacity, in which processing daily work volumes could be completed within one shift operation.

ITEMS PROCESSED IN JUNE 1986
FOR BOE, FTB AND EDD



ITEMS PROCESSED IN AUGUST 1986
FOR BOE, FTB AND EDD



We set the capacity at a level at which on any peak day at least 60% of the work could be completed in one shift. Table IV-3, below, indicates the processing threshold and percentage of days when processing volumes are within the planned capacity for one-shift processing in the consolidated operation.

TABLE IV-3
PROCESSING THRESHOLD

	<u>Threshold</u>	<u>% of days within Threshold</u>
Total Mail	90,000	84%
Non-Standard (June)	72,000	87%
Standard (August)	42,000	96%

It should be noted that one-shift processing does not assume all staff will work at the same time during the available processing hours in a shift. We are assuming that the consolidated operation would schedule shifts on a flexible basis as mail becomes available at the Post Office, and as functional needs arise. Table IV-4, below, presents the projected hours available for processing by function.

TABLE IV-4
PROCESSING TARGET SCHEDULE

<u>Function</u>	<u>Processing Hours</u>	<u>Available Processing Hours</u>
	<u>Start</u>	<u>End</u>
Mail	4:00 a.m.	10:00 a.m.
Extraction/Preparation	6:00 a.m.	12 noon
Encoding	8:00 a.m.	12:30 p.m.
Banking	10:00 a.m.	1:30 p.m.

Conceptual Design Equipment Configuration

Once we established the available processing hours per day and the required capacity, we were able to select the number of devices required by type to meet the volume demands by the required deposit time. **Exhibit IV-20**, on the following page, details the equipment which would be included in the conceptual design of the consolidated operation. Below, Table IV-5, reflects the capacity available at the threshold volume level.

TABLE IV-5
CAPACITY PLAN

	<u>Basis</u>	<u>Required Capacity (000)</u>	<u>% of Available Capacity</u>
Slitters/Openers	Non-Standard	72	37%
Document Detectors	Non-Standard	72	44%
Extractors	Standard	42	81%
Encoders	Total	90	62%
Reader/Sorters	Total	90	70%

CONCEPTUAL DESIGN
EQUIPMENT CONFIGURATION

	Unit Capacity	From Agency
Mail		
4 Omatation letter openers	1,020/hr	FTB
1 Omatation opener/counter	20,000/hr	EDD
1 Docutronics opener/counter	15,000/hr	FTB
Extraction		
15 Opex extractors	700/hr	EDD/BOE
1 Document detector	15,000/hr	EDD
1 Docutronix detector	18,000/hr	FTB
Encoding		
6 Burroughs multipocket encoders	1,200/hr	EDD
18 NCR multipocket encoders	1,200/hr	FTB/BOE
8 NCR single-pocket encoders	1,200/hr	FTB
Banking		
1 Trace II - reader/sorter	39,000/hr	FTB
Other		
1 Vacuum dust collector	N/A	EDD
4 Tallyprinters	N/A	EDD
4 Perforators	N/A	BOE/EDD
4 Check Joggers	N/A	FTB/BOE
113 Adding machines ^{1/}	N/A	FTB/EDD/BOE
39 Terminals ^{1/}	N/A	FTB/EDD/BOE

^{1/} The method of balancing returns to checks will dictate the relative numbers of this equipment type. The conceptual design calls for using adding machines, if terminals are used, the number of terminals will increase proportionally.

F. FLOAT

This section of the report discusses the "float" that will exist in the consolidated cashiering center as conceptualized in this study. Float is the interest lost by the state on monies that are received but not deposited in the bank by the cutoff time for the deposit. The money that is held over for deposit until the next banking day represents lost interest income to the state.

In general, there are several reasons remittances are held over from one banking day to the next, including:

- Delays in mail reaching the cashiering center
- Capacity constraints that exist in equipment, personnel, staffing levels and/or the facility itself
- Exception processing items cannot be completed on the same day.

This list of potential sources of delay is not, of course, exhaustive. There are other situations which can result in the delay of a deposit.

Mail delays can and will occur, despite all precautions taken by a cashiering center. Some delays originating in the post office and those caused by the taxpayer mis-addressing the remittance cannot be avoided.

The potential for capacity constraints contributing to float has been minimized by the conceptual design to the extent possible. Generally, one would expect that some capacity constraint would always exist in a situation similar to the Franchise Tax Board's increase in volumes during mid-April. It may be virtually impossible to provide sufficient capacity to prevent any holdovers during this maximum peak period. We do not anticipate that there will be any change due to consolidation.

Exception processing will always be a source of some holdovers. It is not reasonable to expect that all items processed on an exception basis can be completed prior to the cutoff time for deposits. The majority of uncleared exceptions could be deposited into a suspense account so the state could earn interest while the discrepancy is being resolved. The only exceptions that could not be deposited into a suspense account are those for which a taxpayer account cannot be identified. Consolidation of cashiering operations in itself should not change the current number of holdovers and associated float, nor is it required to implement the suspense account suggestion.

The three agencies included in the consolidated cashiering study do not maintain statistics on the number and timing of items received. All three agencies do maintain statistics on items processed. However, a valid analysis cannot be performed on projected float levels using items processed as a basis since items processed by their nature do not include holdovers.

The data shows that the consolidation of cashiering does not provide productivity gains nor are there sufficient increases in production through workload leveling to conclude that holdovers will change. The lack of smoothing and productivity gains which would result in improved or degraded processing times in a consolidated cashiering center means that an increase or a decrease in float cannot be quantified for the consolidated operation. No change in the current float is anticipated.

V. IMPLEMENTATION PLAN



V.
IMPLEMENTATION PLAN

This section of the report describes the steps which must be performed to consolidate cashiering operations of the Franchise Tax Board, Employment Development Department and the Board of Equalization, if the state decides to move in this direction.

The schedule of activities required for consolidating the cashiering functions of the three agencies is presented on the following page as **Exhibit V-1**. The conceptual design calls for the consolidated center to come under the organizational umbrella of the Franchise Tax Board. It is also anticipated that the physical location of the center would be co-resident with the Franchise Tax Board. The FTB was chosen as the physical and organizational location for several reasons:

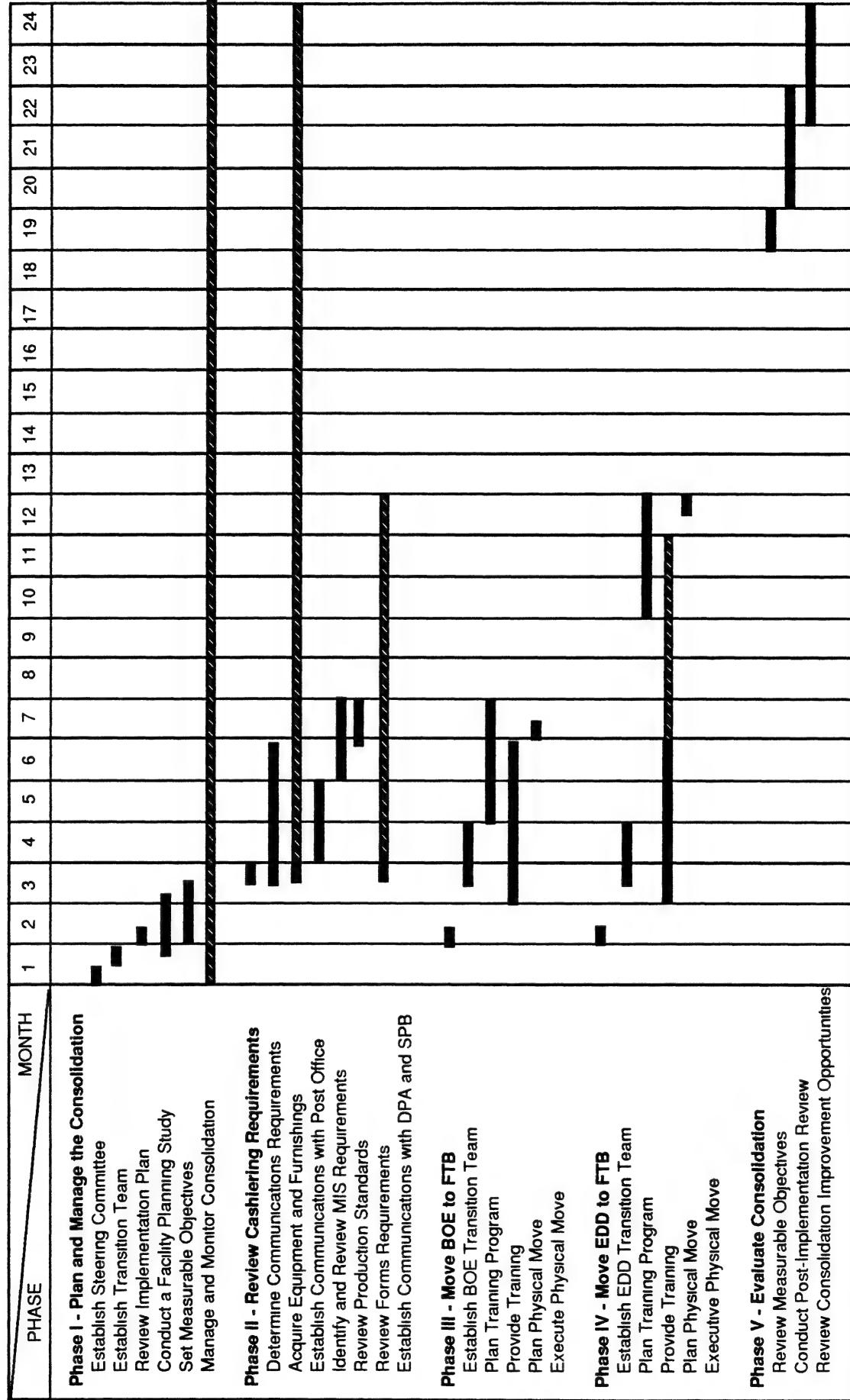
- Franchise Tax Board's facility was designed specifically for cashiering
- Neither EDD nor BOE can expand current space to house additional employees or additional equipment
- FTB has the largest processing volumes and is better positioned to absorb the additional volumes in a consolidated center.

The consolidation should occur in a series of phases. The phases are:

PHASE I	- <i>Plan and manage the consolidation</i>
PHASE II	- <i>Review cashiering requirements and make recommendations</i>
PHASE III	- <i>Move Board of Equalization to Franchise Tax Board</i>
PHASE IV	- <i>Move Employment Development Department to Franchise Tax Board</i>
PHASE V	- <i>Evaluate consolidation.</i>

The following subsections present the activities associated with each phase of the implementation plan.

Consolidated Cashiering Implementation Plan



Denotes an ongoing activity



PHASE I ACTIVITIES - PLAN AND MANAGE CONSOLIDATION

- Establish steering committee with members from all three agencies
- Establish transition team composed of operations staff:
 - Define team responsibilities
 - Identify members
 - Establish ongoing communication program
- Review implementation plan, establish timetable and assign required resources to activities
- Conduct a facility planning study to determine all requirements for the physical plant
- Set measurable objectives for the consolidation effort
- Manage and monitor consolidation activities.

**PHASE II ACTIVITIES - REVIEW CASHIERING REQUIREMENTS
AND MAKE MODIFICATIONS**

- Determine telecommunication requirements for exception processing
- Acquire equipment and furnishings:
 - Write RFPs
 - Evaluate responses
 - Award contracts
- Install equipment, furnishings and communication lines. The communication lines would run from consolidated cashiering site to BOE and EDD's data processing facilities
- Establish communications with the post office and advise them of consolidation plans and timetable
- Identify and review each agency's management information reporting requirements and modify RPS Trace II software and encoding machines as required; the level of effort required for this task can range from minimal to fairly extensive

- Review individual agency's production standards and perform analysis sufficient to establish consolidated production standards; the level of effort required for this task can range from minimal to fairly extensive
- Review current forms and create new forms or modify as required
- Review personnel requirements and request assistance from Department of Personnel Administration and the State Personnel Board:
 - Prior to consolidation to obtain all necessary approvals of classifications
 - During transition to prevent labor or contract disputes.

**PHASE III ACTIVITIES – MOVE THE BOARD OF EQUALIZATION
TO FRANCHISE TAX BOARD**

- BOE and EDD should perform some of these tasks concurrently
- Establish a BOE transition team and identify responsibilities:
 - Liaison with consolidation transition team
 - Coordinate move activities
 - Communicate with employees
- Plan a training program for:
 - General employee orientation
 - Supervisory orientation
 - Specific technical skills training
- Provide training to BOE and FTB staff
- Plan physical move to Franchise Tax Board:
 - Retain moving company
 - Review equipment requirements for moving (e.g. encoders, extractors) and make necessary arrangements
 - Schedule employee assistance during move
- Execute physical move to Franchise Tax Board.

**PHASE IV ACTIVITIES – MOVE EMPLOYMENT DEVELOPMENT DEPARTMENT
TO FRANCHISE TAX BOARD**

- BOE and EDD should perform some of these tasks concurrently
- Establish a EDD transition team and identify responsibilities:
 - Liaison with consolidation transition team
 - Coordinate move activities
 - Communicate with employees
- Plan a training program for:
 - General employee orientation
 - Supervisory orientation
 - Specific technical skills training
- Provide training
- Plan physical move to Franchise Tax Board:
 - Retain moving company
 - Review equipment requirements for moving (e.g. encoders, extractors) and make necessary arrangements
 - Schedule employee assistance during move
- Execute physical move to Franchise Tax Board.

PHASE V ACTIVITIES – EVALUATE CONSOLIDATION

- Review measurable objectives established in Phase I
- Conduct a post-implementation review
- Review consolidation improvement opportunities.

The state should review the success of the consolidation to determine if other tax and revenue collection agencies should become part of the consolidated center. When the transition from three separate agencies is made to a consolidated cashiering operation, a review of opportunities for improvement should be made. Many of these potential improvements could have been accomplished without consolidation so were not considered in the scope of the conceptual design. They include:

- *Standardization of forms.* Opportunities to standardize tax forms for taxpayers should be a priority under consolidation.
- *Greater use of turnaround documents.* Many of the efficiencies experienced by the State of Texas in their consolidated cashiering operation are due to the use of turnaround documents. The efficiencies are gained from the use of optical character recognition (OCR) technology.
- *Consolidation of reporting forms.* EDD and BOE share a taxpayer base that has been estimated at more than 40 percent. If employers who collect sales tax could report both taxes on one form, the number of documents handled by the cashiering center would be decreased.

ONE-TIME IMPLEMENTATION COSTS

Exhibit V-2, on the following page, summarizes the one-time costs associated with implementing a consolidated center. The source of the implementation costs are presented below. It should be noted that the costs are presented in an order of magnitude scale.

Phase I – Plan and Manage the Consolidation

Costs associated with this phase of the implementation are limited to salaries of state employees. Someone should be appointed to manage and monitor the consolidation for the duration of the implementation.

Phase II – Review Cashiering Requirements

- Other costs include equipment and furnishings acquisition as follows:

-	Printer	\$ 1,800
-	Furniture	84,000
-	Communication lines	15,000
-	Furniture installation	25,000
-	Typewriters	600
-	Microfilmer upgrade	60,000 ^{1/}
-	Reprogramming of reader/sorter	20,000

^{1/} Upgrade of the reader/sorter to provide microfilming capability is optional.

CONSOLIDATED CASHIERING
ONE-TIME IMPLEMENTATION COSTS

Implementation Plan	Personnel Costs	Other Costs
Phase I - Plan and Manage the Consolidation Establish Steering Committee Establish Transition Team Review Implementation Plan Conduct a Facility Planning Study Set Measurable Objectives Manage and Monitor Consolidation	\$ 1,400 1,400 2,800 33,600 11,200 134,400	
Phase II - Review Cashiering Requirements Determine Communications Requirements Acquire Equipment and Furnishings Establish Communications with Post Office Identify and Review MIS Requirements Review Production Standards Review Forms Requirements Establish Communications with DPA and SPB	5,600 28,000 2,800 11,200-22,400 16,800-35,000 5,600 2,800	\$206,400 ^{1/}
Phase III - Move BOE to FTB Establish BOE Transition Team Plan Training Program Provide Training Plan Physical Move Execute Physical Move	1,400 11,200 27,640 22,400 5,600	3,000
Phase IV - Move EDD to FTB Establish EDD Transition Team Plan Training Program Provide Training Plan Physical Move Execute Physical Move	1,400 11,200 13,240 22,400 5,600	3,500
Phase V - Evaluate Consolidation Review Measurable Objectives Conduct Post-implementation Review Review Consolidation Improvement Opportunities	5,600 28,000 35,000	
Total One-Time Implementation Costs	\$448,280-477,680	\$212,900

- Personnel costs associated with Phase II of the consolidation are shown in the first column. The state, of course, has the option of contracting out for any of these services. This implementation plan assumes that subsequent work is performed by state employees.

Phase III - Move Board of Equalization of Franchise Tax Board

It is estimated that a physical move would cost approximately \$3000 based on the following assumptions:

- Each employee would require approximately 3 to 5 boxes for personal effects and desk equipment
- Approximately 10 five drawer file cabinets would be moved
- Desks, tables, chairs and other workstation equipment would not be moved to the new facility
- All BOE equipment identified in Exhibit IV-20 is included in the move.

Phase IV - Move Employment Development Department to Franchise Tax Board

It is estimated that a physical move would cost approximately \$3500 based on the following assumptions:

- Each employee would require approximately 3 to 5 boxes for person effects and desk equipment
- Approximately 15 five drawer file cabinets would be moved
- Desks, tables, chairs and other workstation equipment would not be moved to the new facility
- All EDD equipment identified in Exhibit IV-20 is included in the move

Phase V - Evaluate Consolidation

Costs associated with this phase will be limited to personnel costs unless the state decides to seek outside assistance and contract out some or all of the activities.



STATE BOARD OF EQUALIZATION

1020 N STREET, SACRAMENTO, CALIFORNIA
 (P O BOX 942879, SACRAMENTO, CALIFORNIA 94279-0001)
 (916) 445-3956

WILLIAM M BENNETT
 First District, Kentfield

CONWAY H COLLIS
 Second District, Los Angeles

ERNEST J DRONENBURG JR
 Third District San Diego

PAUL CARPENTER
 Fourth District Los Angeles

GRAY DAVIS
Controller Sacramento

DOUGLAS D BELL
Executive Secretary

August 4, 1987

Mr. Thomas W. Hayes
 Auditor General
 660 J Street, Suite 300
 Sacramento, California 95814

Dear Mr. Hayes:

Your letter of July 28 asks for our written comments on your draft report entitled "A Study of Consolidating the Cashiering Operations of the State's Three Largest Tax Collection Agencies".

We have reviewed the draft report and are in agreement with its main conclusions. Additionally, we appreciate the recommendations for improvement of the Board's cashiering operations, and have the following response to each of them.

In response to an earlier discussion with your staff, we have rearranged the shifts of the cashiering staff so that our eleven encoders are operated continuously from the beginning of the work day at 6:00 a.m. (4:00 a.m. in peak periods) until the daily cut off for banking of tax payments as the workload requires. We trained additional operators to accomplish this, and will continue cross-training so that we will have a sufficient number of trained operators to maintain this schedule.

Your second recommendation was to hire additional permanent intermittent or temporary employees instead of using overtime or borrowing staff with higher paid job classifications. You further indicated that we had not formally requested the necessary additional positions to eliminate the need to pay overtime and borrow higher paid help.

Our requests for staff in recent years were in accord with directions from the Department of Finance to reduce the number of personnel years, and to use overtime, or redirect existing resources to meet workload increases. However, we agree with your assessment of the benefits to be derived from additional permanent intermittent or seasonal employees, and will submit an appropriate budget change proposal in the budget cycle for 1988-89. Obviously, implementation of this recommendation requires the concurrence of the Department of Finance, consistent with overall state budget policy.

Mr. Thomas W. Hayes

-2-

August 4, 1987

Your third and fourth recommendations dealt with forecasting the daily volume of mail in order to properly schedule permanent intermittent staff in proportion to the expected daily workload. Again, we agree in general with your assessment of past practices, and will implement this recommendation. I should note that in the last two months we have appointed a new Cashier and a new Chief, General Services Section, who has line responsibility for the Cashier Unit operation. We expect this new management not only to implement your suggestions, but also to be innovative and creative in managing the cashiering function to maximize interest earnings and reduce costs.

We appreciate the opportunity to comment on the report, and greatly appreciate the highly professional manner in which the study was conducted and the results presented. We look forward to working with you in the future in improving the management of state tax collection.

Sincerely,

Douglas D. Bell

Douglas D. Bell
Executive Secretary

DDB:jw

EMPLOYMENT DEVELOPMENT DEPARTMENT (916) 445-9212
P.O. Box 942880, Sacramento, CA 94280-0001

AUG 03 1987

• REFER TO

22:28:cjh

• Thomas W. Hayes, Auditor General
Office of the Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

— Dear Mr. Hayes:

Mr. Allenby, Secretary, Health and Welfare Agency, has asked me to respond to your report entitled, "A Study of Consolidating the Cashiering Operations of the State's Three Largest Tax Collection Agencies."

Thank you for the opportunity to review the report. We have no major concerns or issues with the report as written. As with any study, there were a number of issues which reflected our two different perspectives, which were both valid. For example: we agree with your comments regarding the unquantified costs associated with the increased complexity in processing tax payments in the proposed consolidated environment. However, we feel there are many other potential increases to operating costs from the proposed consolidation which were not identified by the Arthur Young staff because they did not conduct their study in sufficient detail to identify the majority of such additional costs.*

Our last comment on the report relates to Arthur Young staff's conclusion that "Texas has successfully operated a consolidated cashiering center for more than ten years". This conclusion is not consistent with Texas' responses to our survey. Texas reported three entities perform its major cashiering functions (see attached). The Texas State Employment Security Agency cashiers the Unemployment Insurance Tax. The types of taxes cashiered by California's Board of Equalization are cashiered by two entities (State Controller and Alcoholic Beverage Commission). Finally, Texas is not "substantially equivalent" to California. Texas does not have Personal Income Tax nor Disability Insurance, and handles approximately one-third of the volume handled by California's Employment Development Department and Board of Equalization.

— *The Auditor General's comment to this response appears on page R-4.

I would like to extend my appreciation for the professional and courteous manner in which this study was conducted. Messrs. Stephen Shutte and Doug Cordiner managed the study in a very open, yet professional manner. Ms. Katherine Weir and Mr. Thomas Wurtz, the staff assigned to the study at EDD, conducted themselves in a most professional manner throughout the study.

I look forward to a continued productive relationship with your office.

Sincerely,

J. Socha R. Greene
J. R. KIDDOW
Director

Attachment

cc: Clifford L. Allenby

Auditor General's Comment: We disagree that the scope of our consultant's study was insufficient to identify a majority of the operating costs that the State would incur as a result of consolidation. When asked, EDD staff provided us with one example of how operating costs might increase beyond our consultant's estimate. The same EDD staff also admitted that they knew of no basis for estimating potential cost increases. Furthermore, as we discuss on page 13 of our report, although a potential for cost increases exists, a potential for offsetting these cost increases also exists.

TAX REMITTANCE SURVEY

STATE
RESPONDER'S NAME
PHONE NUMBER

TEXAS
BILL GRABO
(512) 463-3956

EX-9
1-1 Grabo
1) 463-3936

UNEMPLOYMENT
DISABILITY
INSURANCE TAX
TAX

What State entity (agency, dept., office, etc.) receives remittances* for the listed taxes?

Does the above entity (s) process and deposit received remittances?**

If another entity processes and/or deposits, please indicate which entity.

Is tax subject to payroll withholding?

Funds (cash, check, money order, etc)
Preparing remittances for deposit

(PLEASE CONTINUE ON THE OTHER SIDE)

UNEMPLOYMENT INSURANCE TAX	DISABILITY INSURANCE TAX	PERSONAL INCOME TAX	BUSINESS TAX	SALES TAX	FUEL TAX	ALCOHOLIC BEVERAGE TAX	CIGARETTE TAX
<input type="checkbox"/> CENTRAL	<input type="checkbox"/> CENTRAL	<input type="checkbox"/> CENTRAL	<input type="checkbox"/> CENTRAL	<input type="checkbox"/> CENTRAL	<input type="checkbox"/> CENTRAL	<input type="checkbox"/> CENTRAL	<input type="checkbox"/> CENTRAL
<input type="checkbox"/> LOCAL	<input type="checkbox"/> LOCAL	<input type="checkbox"/> LOCAL	<input type="checkbox"/> LOCAL	<input type="checkbox"/> LOCAL	<input type="checkbox"/> LOCAL	<input type="checkbox"/> LOCAL	<input type="checkbox"/> LOCAL
<input type="checkbox"/> BOTH	<input type="checkbox"/> BOTH	<input checked="" type="checkbox"/> BOTH	<input checked="" type="checkbox"/> BOTH	<input checked="" type="checkbox"/> BOTH	<input checked="" type="checkbox"/> BOTH	<input checked="" type="checkbox"/> BOTH	<input checked="" type="checkbox"/> BOTH
<input checked="" type="checkbox"/> N/A	<input checked="" type="checkbox"/> N/A	<input checked="" type="checkbox"/> N/A	<input checked="" type="checkbox"/> N/A	<input checked="" type="checkbox"/> N/A	<input checked="" type="checkbox"/> N/A	<input checked="" type="checkbox"/> N/A	<input checked="" type="checkbox"/> N/A

Which type of office(s) are remittances initially received at?

What is the average processing elapse time from remittance receipt to deposit in financial institution?

48 hrs hrs hrs hrs hrs hrs hrs hrs
 N/A N/A N/A N/A N/A N/A N/A N/A

What was the total dollar amount remitted per tax during your last fiscal year?

\$ 800,000.000 N/a \$ N/a \$ 830,043,000 \$ 4,329,870,820 \$ 1,011,478,723 \$ 374,792,025 \$ 318,715,314

What is the approximate number of remittances received annually?

1500 N/a N/a 306,000 3,113,000 59,000 149,600 600

Please supply the name, address, and phone number of a contact person for each tax listed. This information is critical to our survey!

<u>Jo Bevil</u>	<u>N/a</u>	<u>N/a</u>	<u>Bill Graba</u>	<u>Bill Graba</u>	<u>Bill Graba</u>	<u>James Adams</u>	<u>Bill Graba</u>
<u>Rm 632</u>			<u>III E 17th</u>	<u>III E 17th</u>	<u>III E 17th</u>	<u>Texas Alcoholic Beverage Commission</u>	<u>Texas Alcoholic Beverage Commission</u>
<u>TCB Bldg.</u>			<u>AUSTIN, TX</u>	<u>AUSTIN, TX</u>	<u>AUSTIN, TX</u>	<u>Capitol Station</u>	<u>AUSTIN, TX</u>
<u>Austin, TX</u>			<u>Texas</u>	<u>Texas</u>	<u>Texas</u>	<u>78774</u>	<u>78774</u>
<u>78778</u>			<u>78774</u>	<u>78774</u>	<u>78774</u>	<u>(512) 463-3456</u>	<u>(512) 463-3456</u>
<u>'512) 463-2215</u>						<u>Box 13127</u>	<u>Box 13127</u>

Please supply the name, address, and phone number of a contact person for each tax listed. This information is critical to our survey!

<u>Jo Bevil</u>	<u>N/a</u>	<u>N/a</u>	<u>Bill Graba</u>	<u>Bill Graba</u>	<u>Bill Graba</u>	<u>James Adams</u>	<u>Bill Graba</u>
<u>Rm 632</u>			<u>III E 17th</u>	<u>III E 17th</u>	<u>III E 17th</u>	<u>Texas Alcoholic Beverage Commission</u>	<u>Texas Alcoholic Beverage Commission</u>
<u>TCB Bldg.</u>			<u>AUSTIN, TX</u>	<u>AUSTIN, TX</u>	<u>AUSTIN, TX</u>	<u>Capitol Station</u>	<u>AUSTIN, TX</u>
<u>Austin, TX</u>			<u>Texas</u>	<u>Texas</u>	<u>Texas</u>	<u>78774</u>	<u>78774</u>
<u>78778</u>			<u>78774</u>	<u>78774</u>	<u>78774</u>	<u>(512) 463-3456</u>	<u>(512) 463-3456</u>
<u>'512) 463-2215</u>						<u>(512) 463-3456</u>	<u>(512) 463-3456</u>

Austin, Texas
78711
(512) 458-2500
ext. 700

THANK YOU



State and Consumer Services Agency

OFFICE OF THE SECRETARY
915 Capitol Mall, Suite 200
Sacramento, CA 95814

August 4, 1987

Mr. Thomas W. Hayes
Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Hayes:

P-656

As you requested, we have reviewed your report "A Study of Consolidating the Cashiering Operations of the State's Three Largest Tax Collection Agencies". The following comments pertain to those issues which impact the Franchise Tax Board:

1. Page 7 "we do not estimate either an increase or decrease in interest earnings as a result of consolidation."

The descriptions of these activities and costs for the cashiering operation at the Franchise Tax Board are correct. We concur with the comment that a consolidation will not result in an increase or decrease in interest earnings for the state. The average workday delay in deposits probably will not change, especially in the Franchise Tax Board's case, due to the high volume of payments (2.4 million) received during the April 15th filing period.

2. Page 14 "we do not believe that consolidation is justified at this time."

We concur with the conclusion that consolidation of the cashiering operations is not justified at this time.

Thank you for the opportunity to review the draft report.

Sincerely,

Shirley Chilton
SHIRLEY R. CHILTON
Secretary to the Agency

SRC:JW:psf

DEPARTMENTS AND PROGRAMS OF THE AGENCY

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps